

Washington State Economic Outlook & Revenue Collection Experience

Presented to
Premera Blue Cross Officer & Director Meeting

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WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



Alaska, Oregon & Washington: brief overview

- Tax systems
- Labor markets
- Summary statistics



State tax systems: a summary

Washington

- No personal, corporate income taxes
- Gross receipts business tax (B&O tax)
- Retail sales tax is largest revenue source

Oregon

- No retail sales tax
- Personal and corporate income taxes
- Personal income tax is largest revenue source



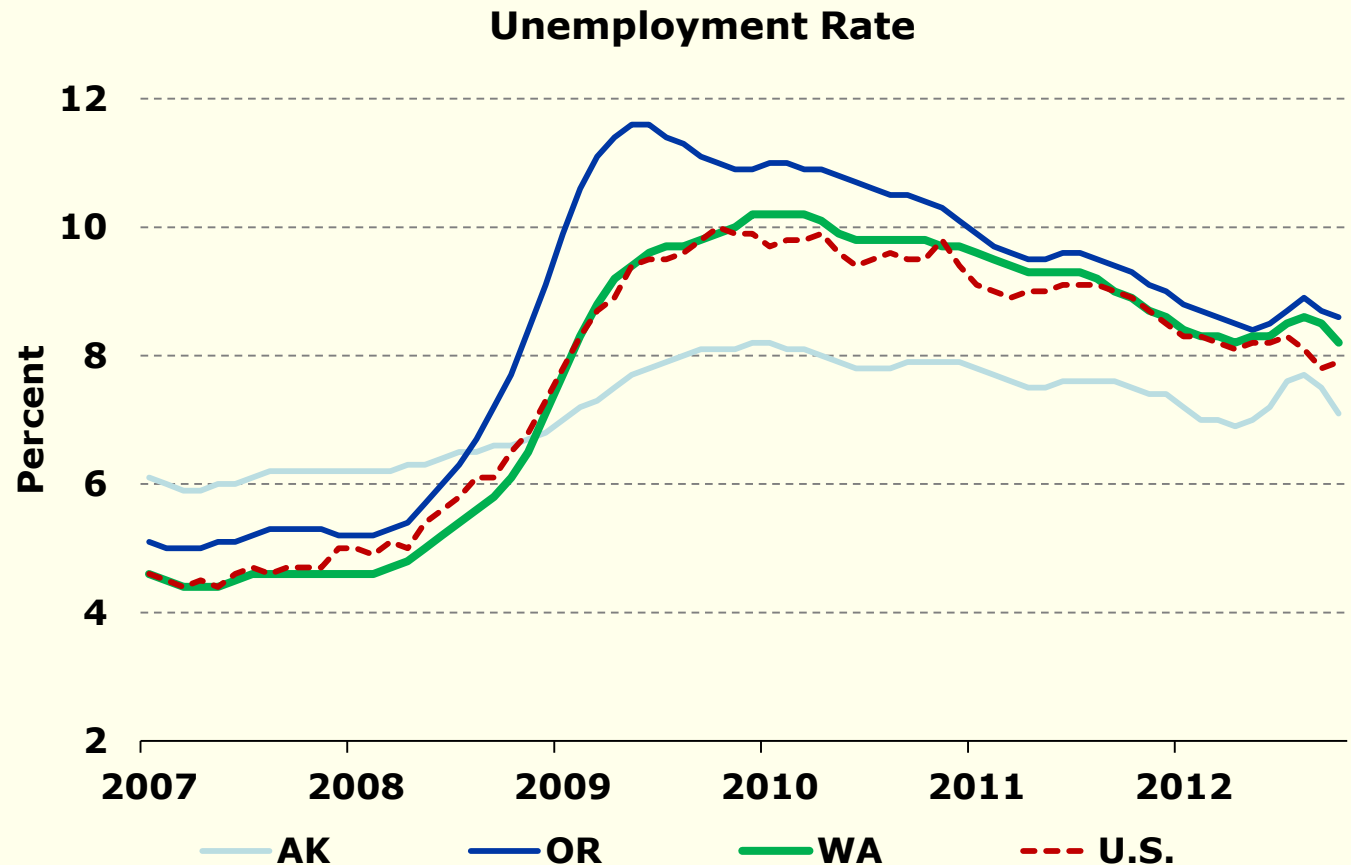
State tax systems: a summary

Alaska

- No personal income, corporate income (except oil producers) or state retail sales tax
- Oil revenues from royalties and property, corporate income, and production taxes account for approximately 90% of state revenues

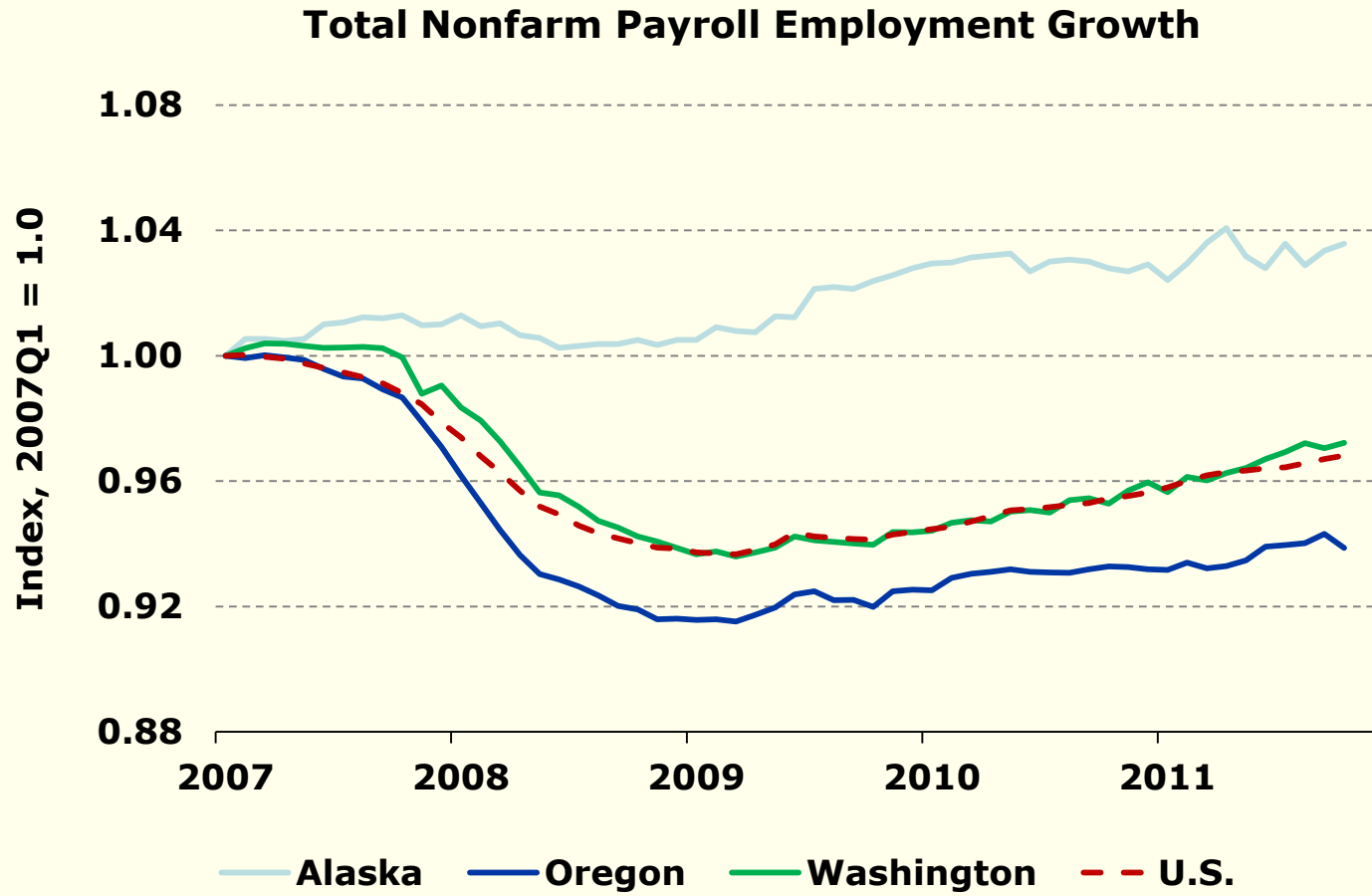


State labor markets: Unemployment rates



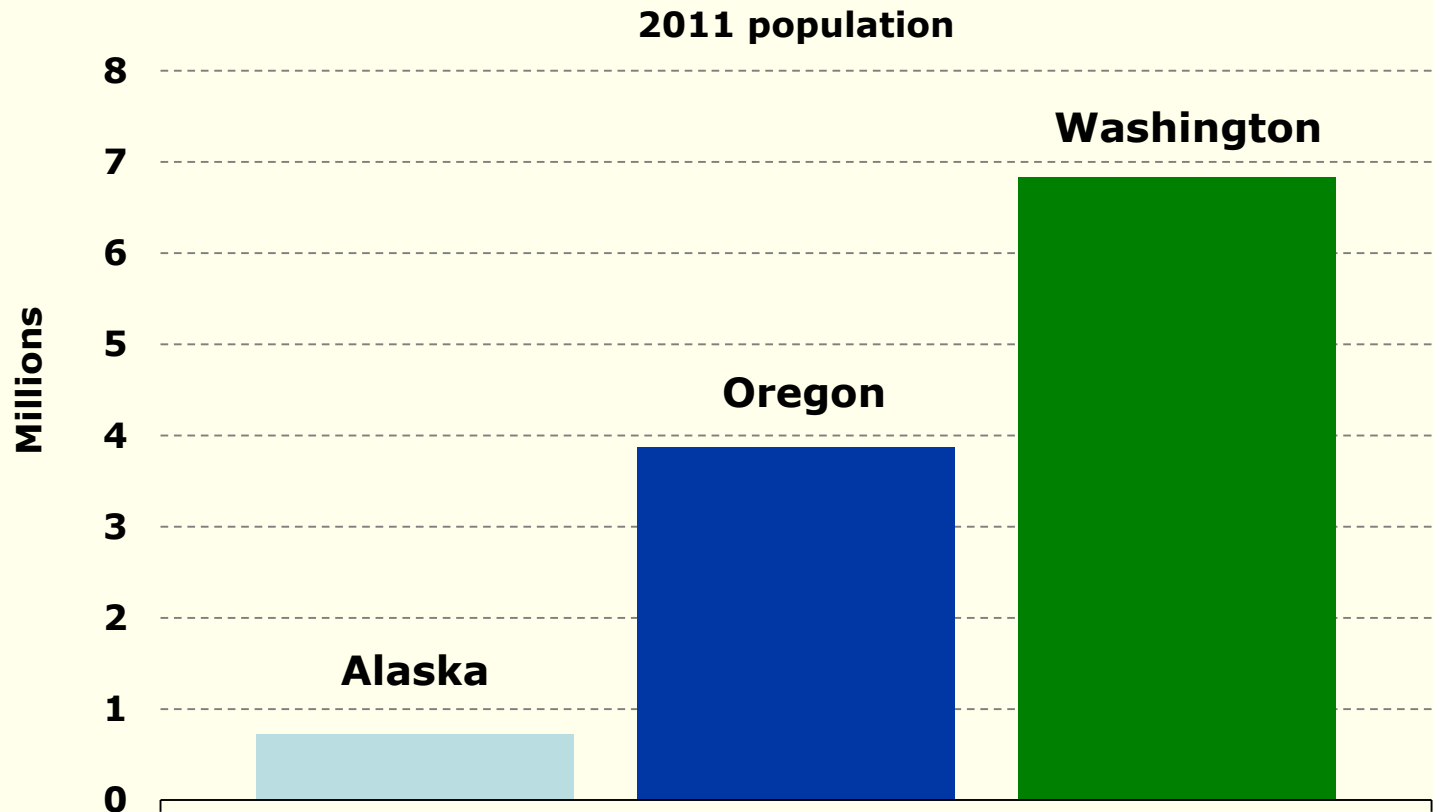


State labor markets: Employment growth



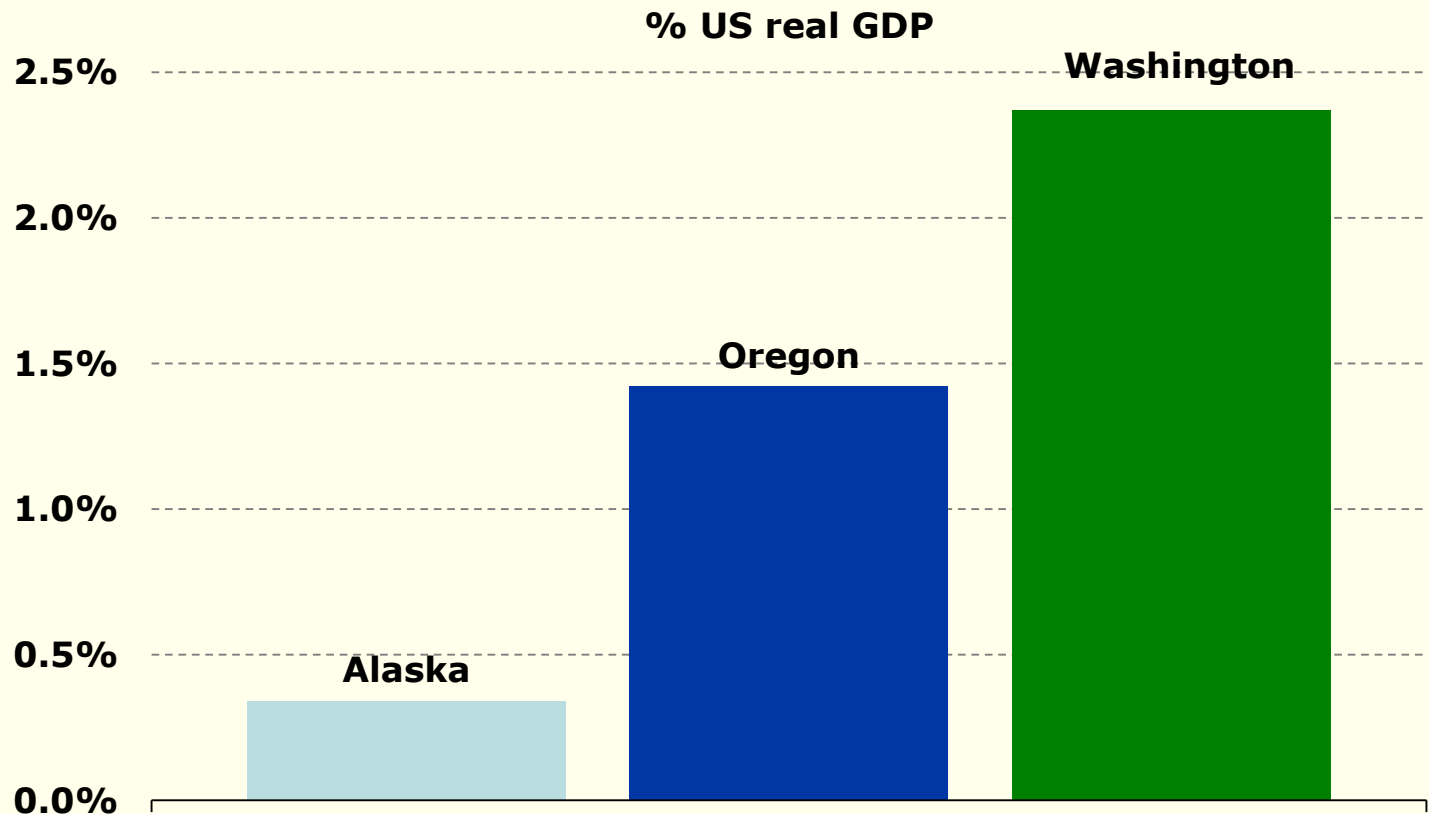


Summary statistics: Relative size





Summary statistics: Real state GDP as percent of real U.S. GDP





Forecast update for November

- Forecast risks
- U.S. and Washington economic forecasts
- Washington revenue forecast



Forecast Summary

- The WA and U.S. economic forecasts have been fairly consistent since early 2012 – slow growth and weak labor markets
- As a result, the WA revenue forecast has also been fairly consistent since early 2012
- Given the uncertainty around implementation, no new revenue is associated with I-502 at this time
- Uncertainty in the baseline remains very high, mostly due to on-going concerns about Europe, China, and the “fiscal cliff”
- The housing sector appears to have stabilized and is now an upside risk to the forecast



The state's risk matrix shows most risks from outside state

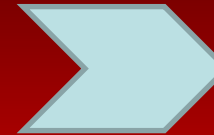


Washington's Economy

EUROPE
Sovereign
Debt

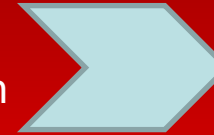


EUROPE
Banks

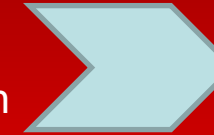


U.S.
Banks

European
Recession



Asia
Slowdown



U.S.
Trade

• Fiscal Cliff

• Iran's effect on oil

Housing and construction, Exports

**State of
Washington**

Pluses
**Aerospace
Software**

Minuses
**State & Local
Government**

Source: ERFC

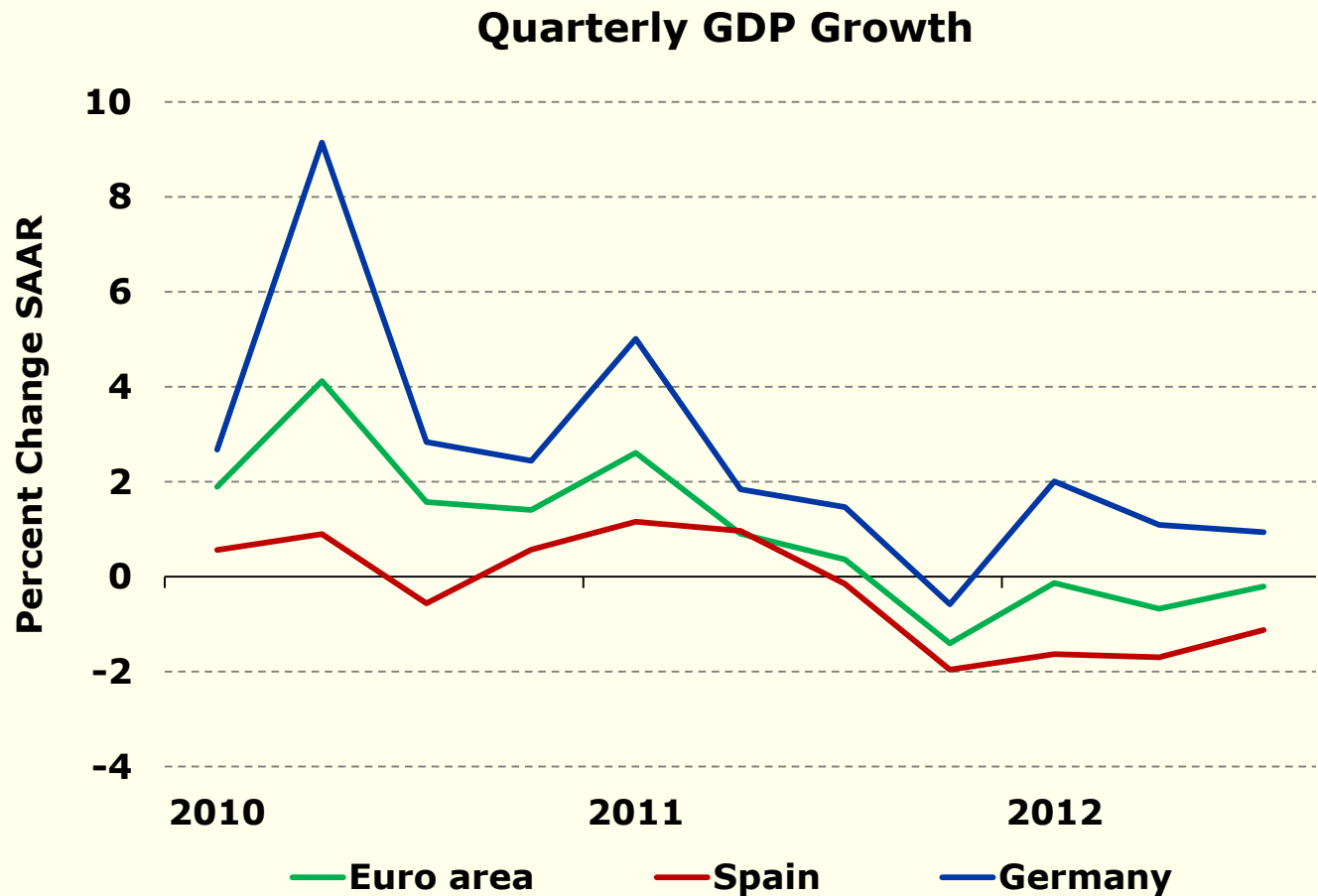


Euro area GDP growth is negative

Eurozone
Forecast:

2012: -0.4%

2013 0.2%





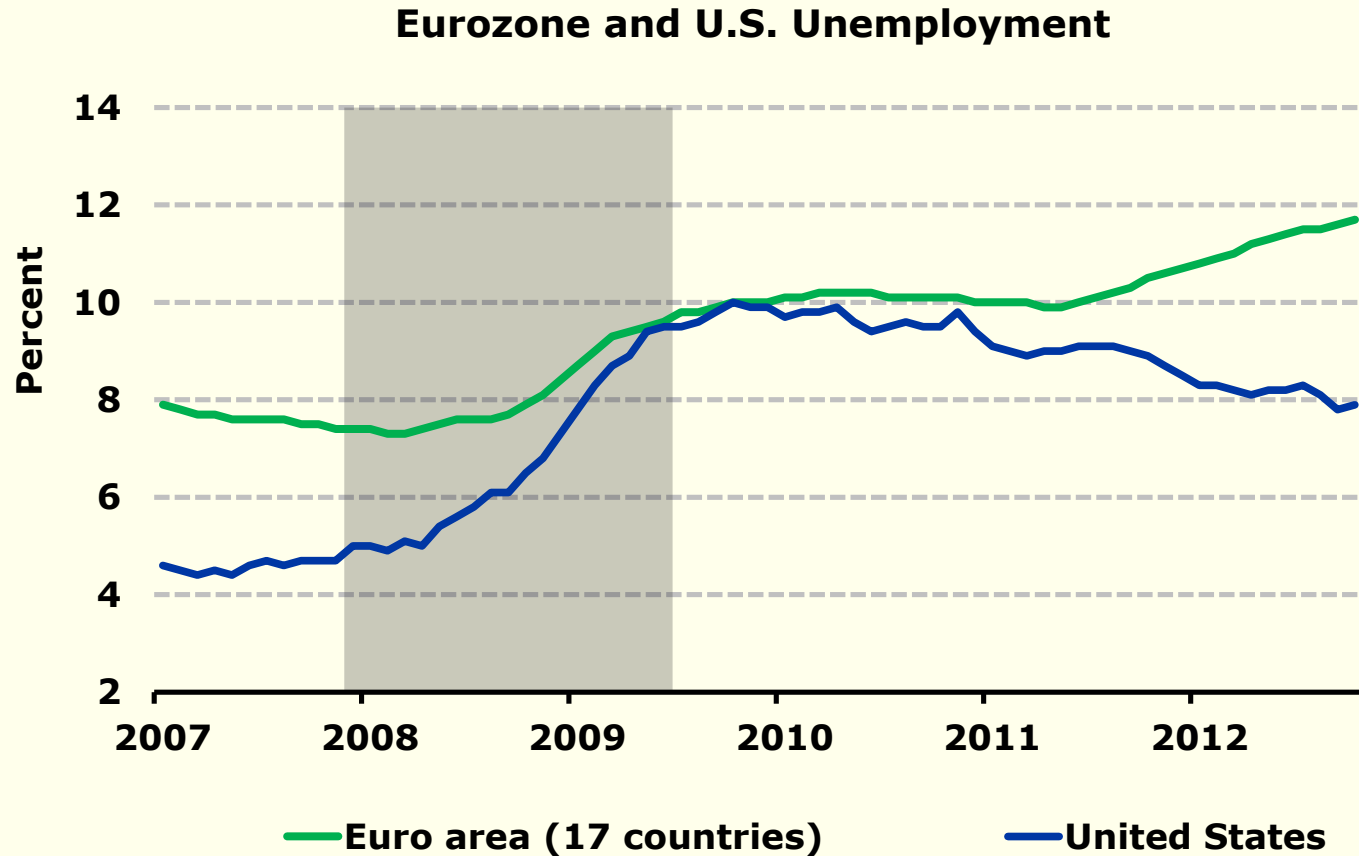
European unemployment is heading in the wrong direction

Unemployment Rate:

Spain: 26.2

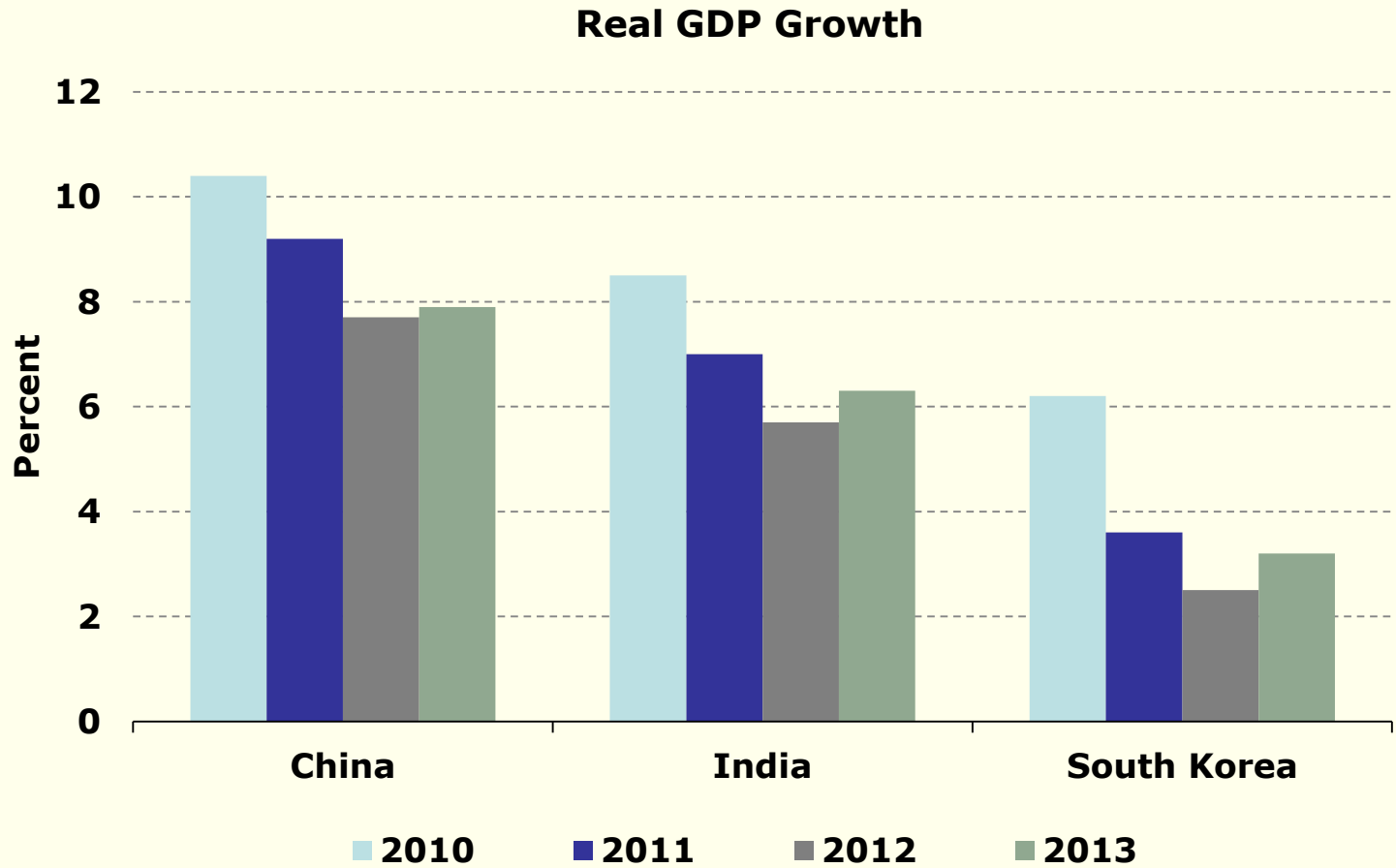
Greece: 25.4

Germany: 5.4





Asian economic growth is slowing

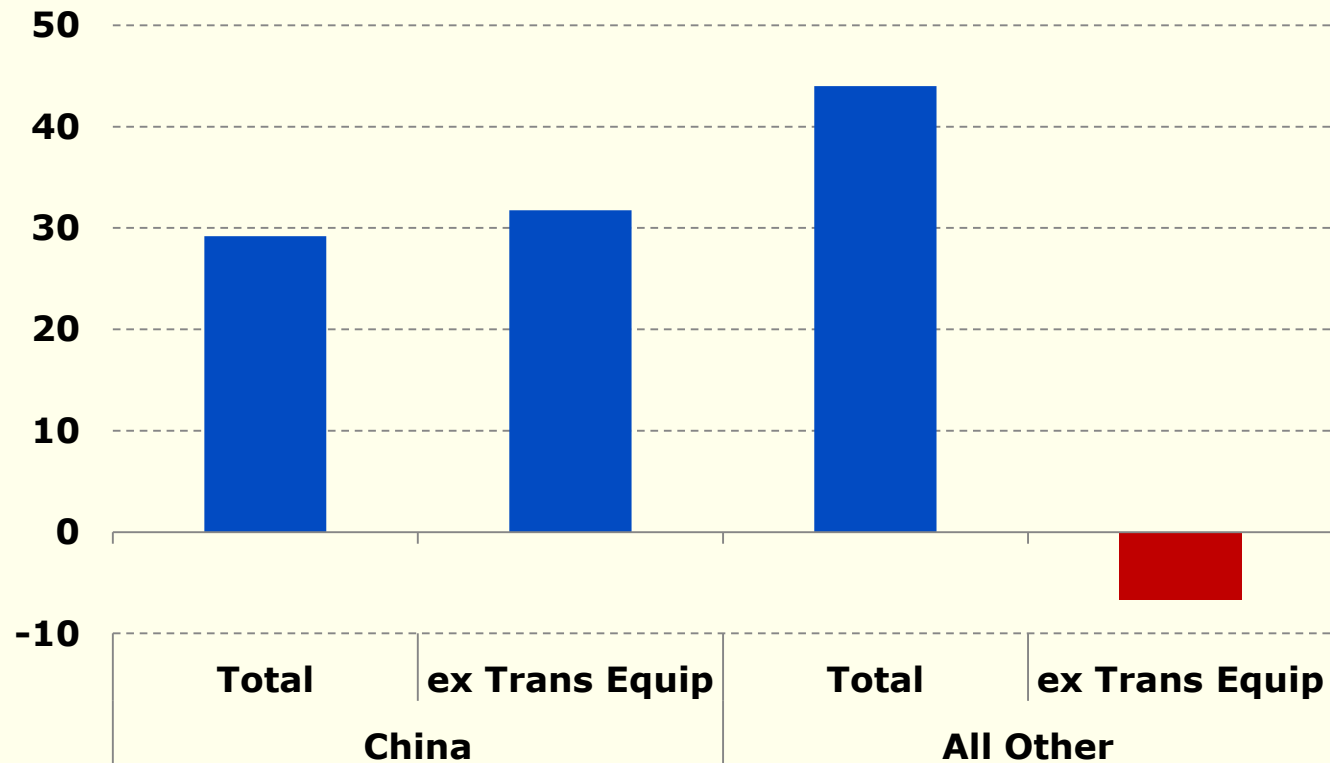




Non Transportation Equipment exports outside of China are declining

YTD Agricultural exports to China are up 90%

Washington Exports YTD % Change





The U.S. will enter another recession if Congress does not address fiscal cliff

FY 2013	Fiscal Cliff¹	Alt Scenario²
GDP	-0.5%	+1.7%
Unemployment Rate	9.1%	8.0%
Budget Deficit	\$641 Billion	\$1,037 Billion

¹ Current laws remain generally unchanged.

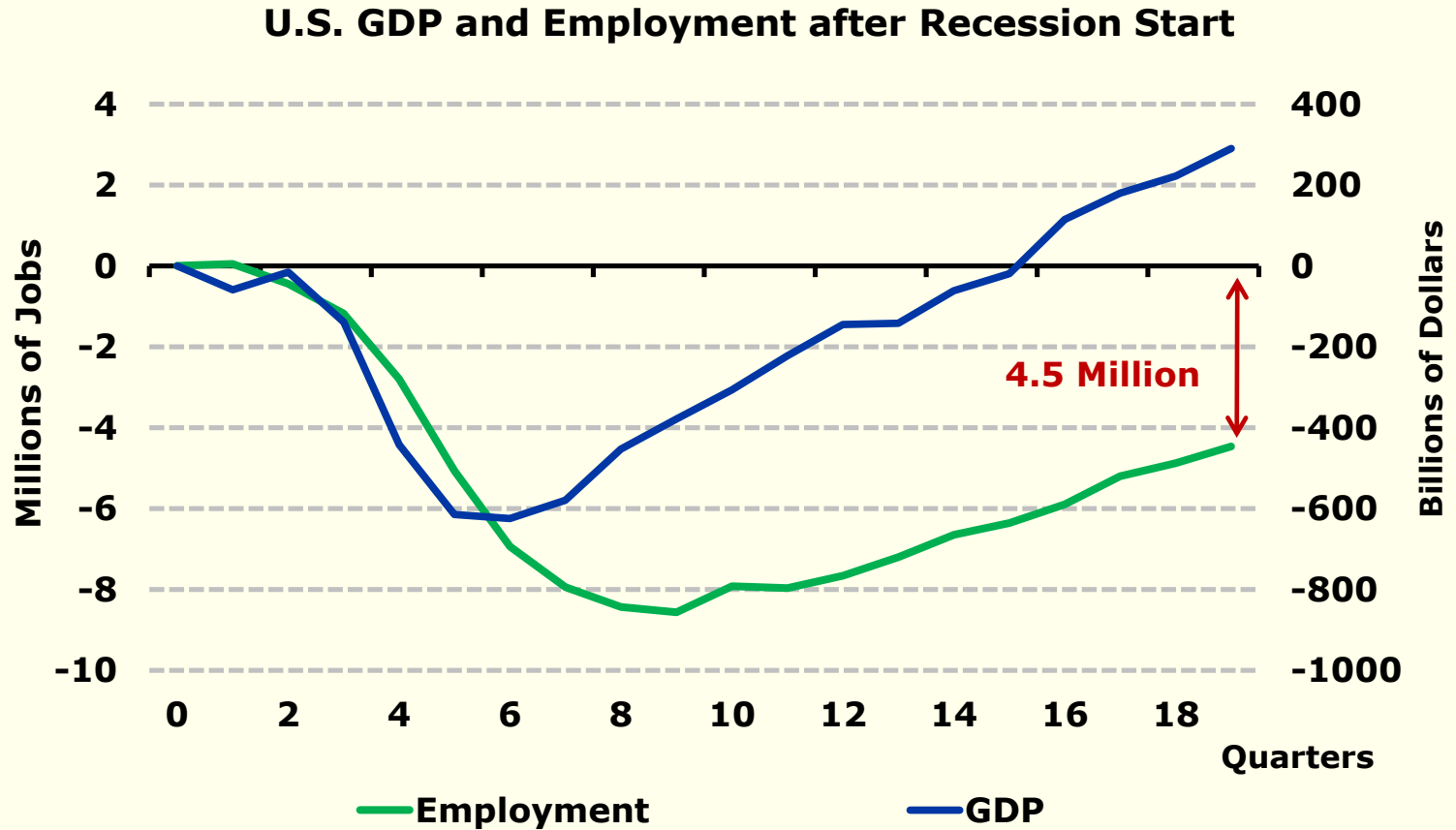
² Maintains majority of current policies (extend most tax cuts and prevent automatic spending cuts)

Source: The Congressional Budget Office



The economy is now producing more than its pre-recession output with fewer jobs

Data
normalized to
recession
start, 2007Q4
= 0

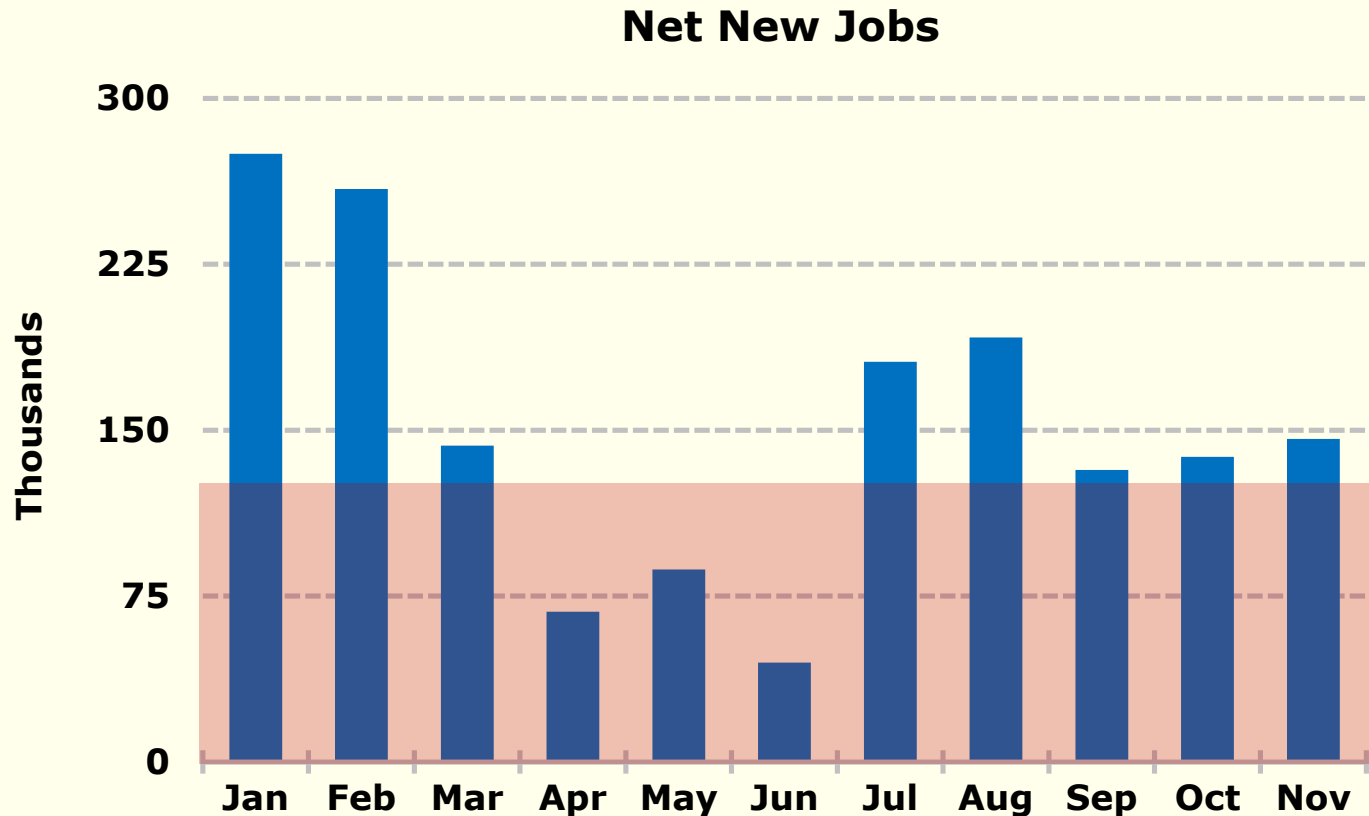




Job growth remains weak

12.0 million people remained unemployed in November

The economy needs to add roughly 125K jobs each month just to keep up with growth in the labor force

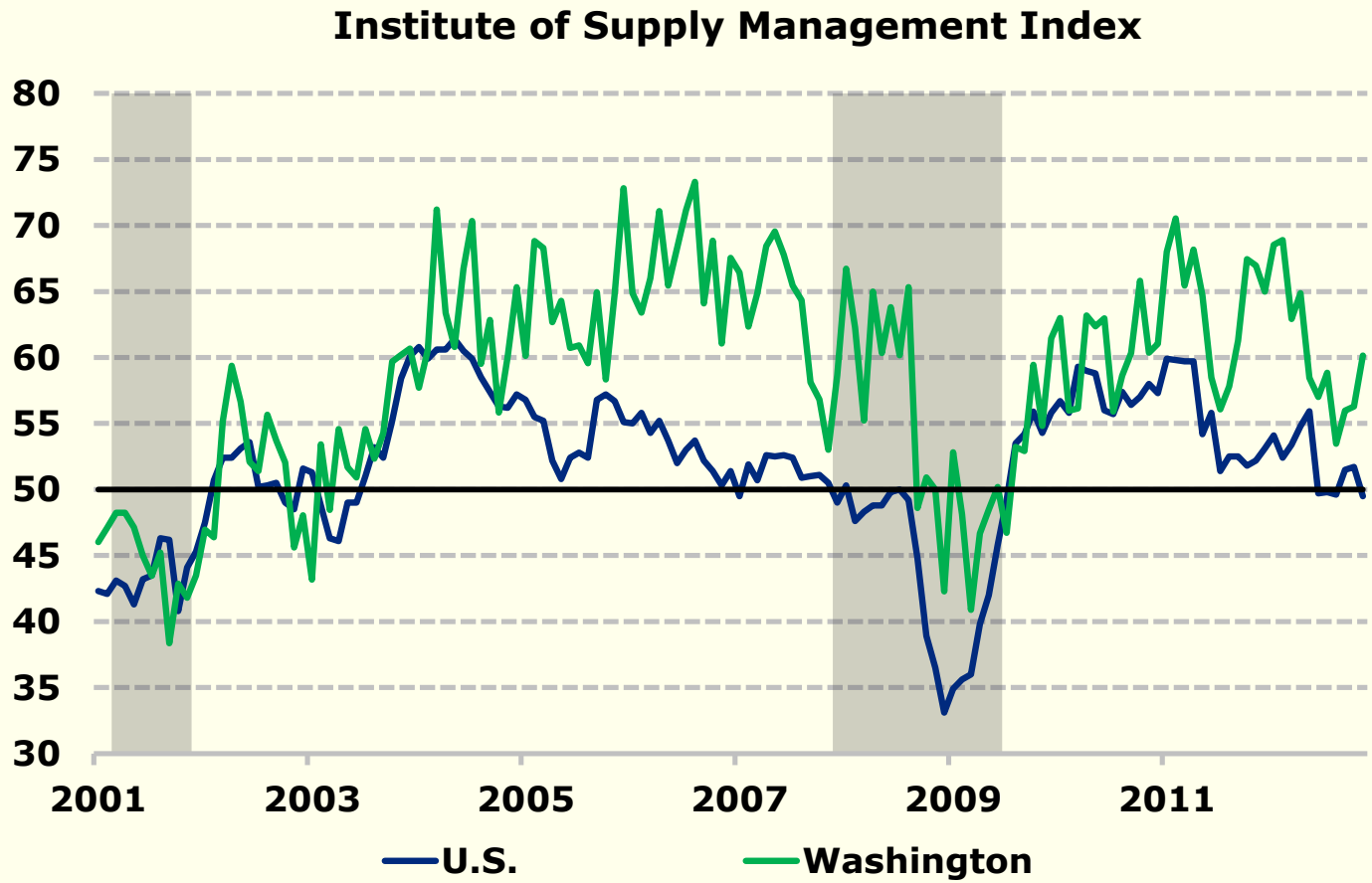


Source: Bureau of Labor Statistics, data through November 2012



Manufacturing remains weak nationally

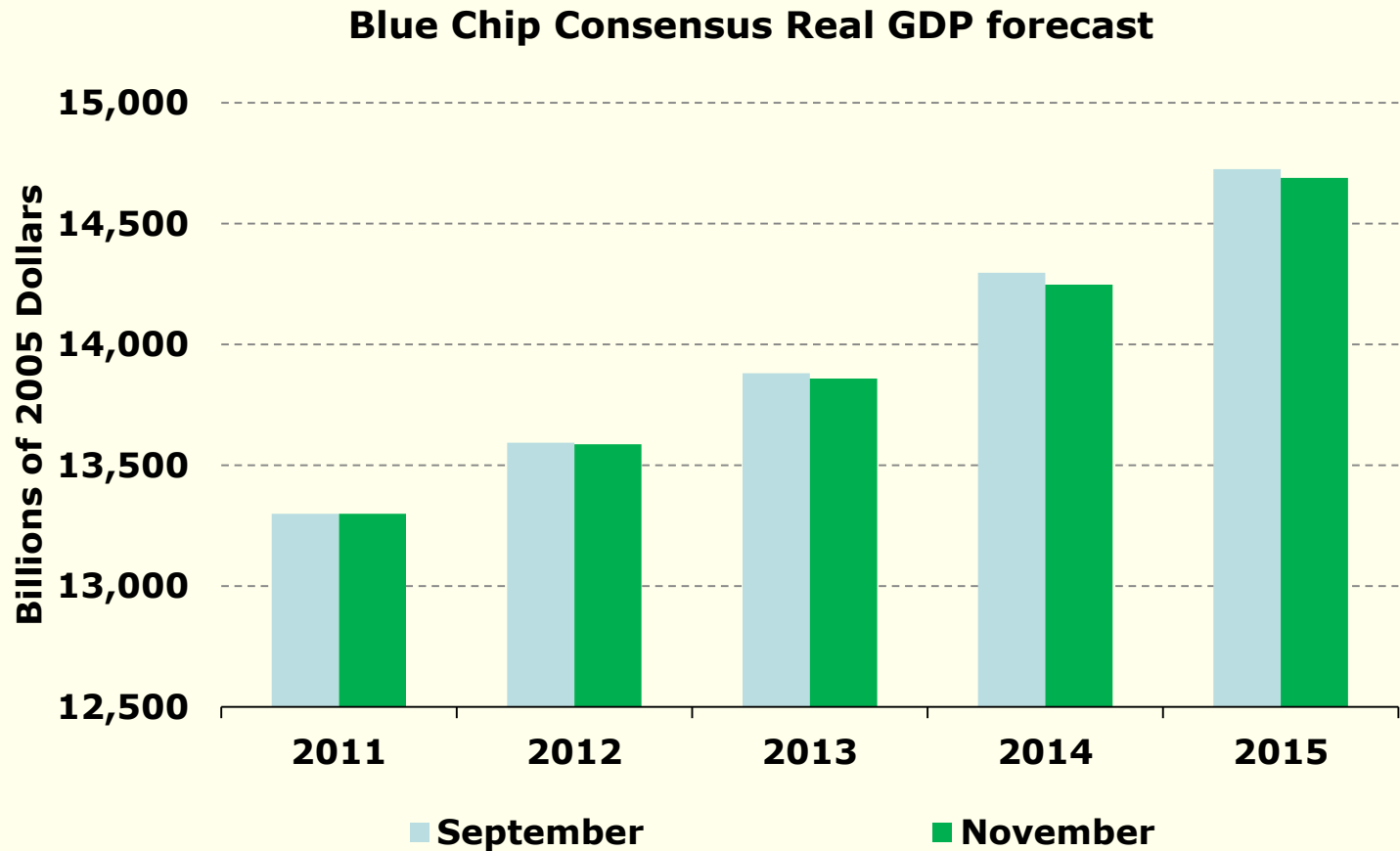
An index greater than 50, implies growth



Source: Institute of Supply Management; data through November 2012

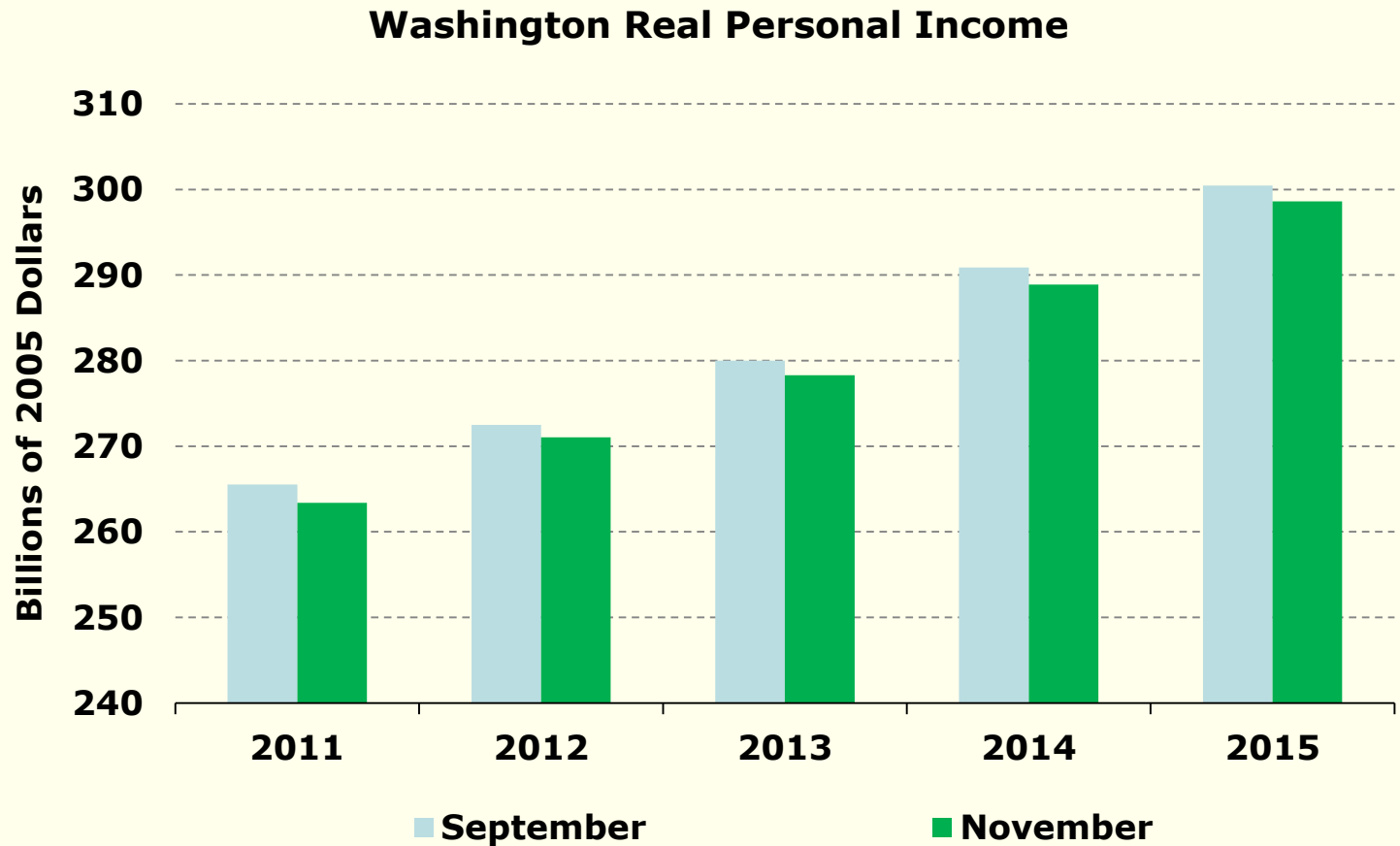


U.S. GDP Forecast Slightly Lower



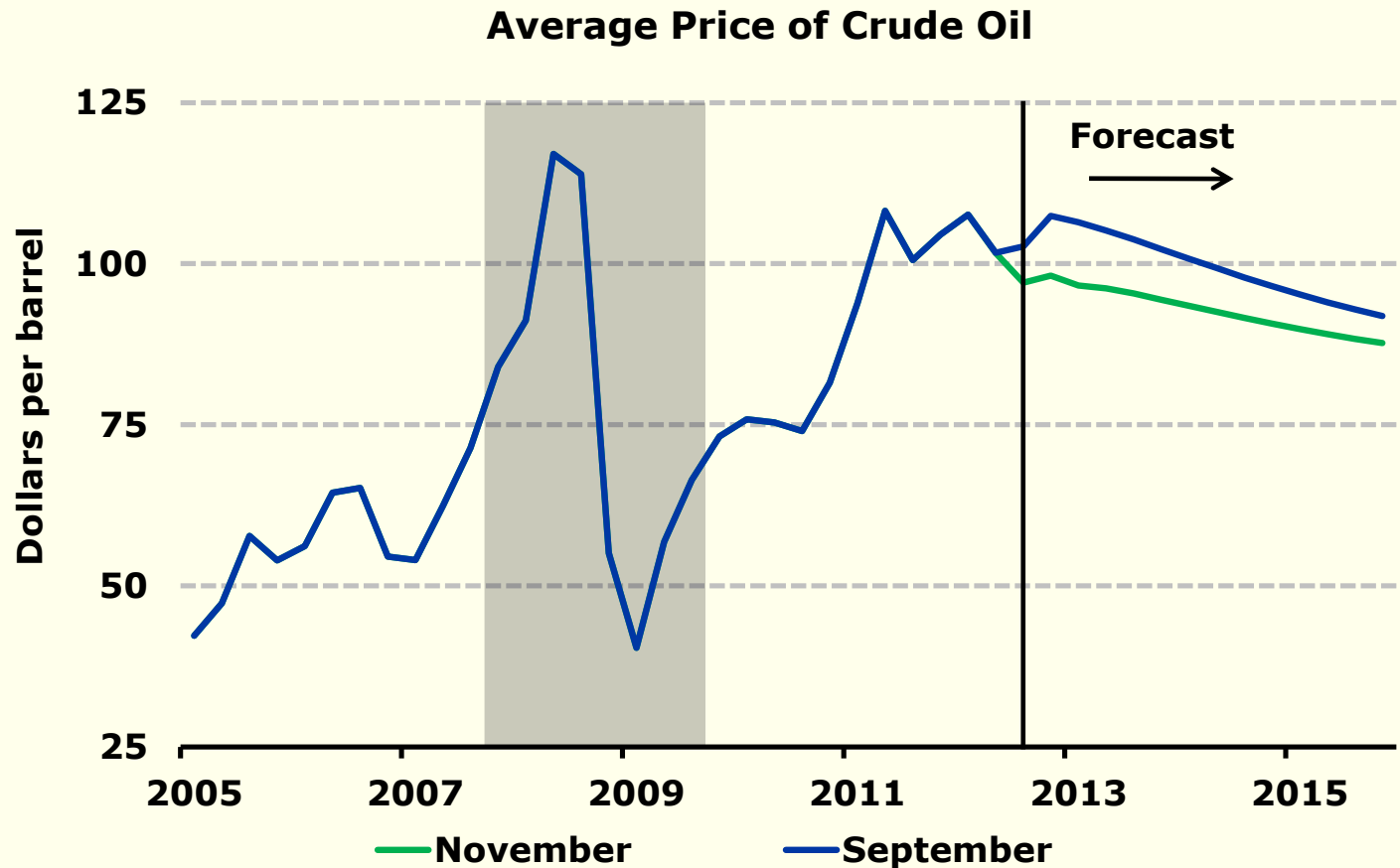


WA Personal Income Forecast Slightly Lower





Oil prices are expected to decline



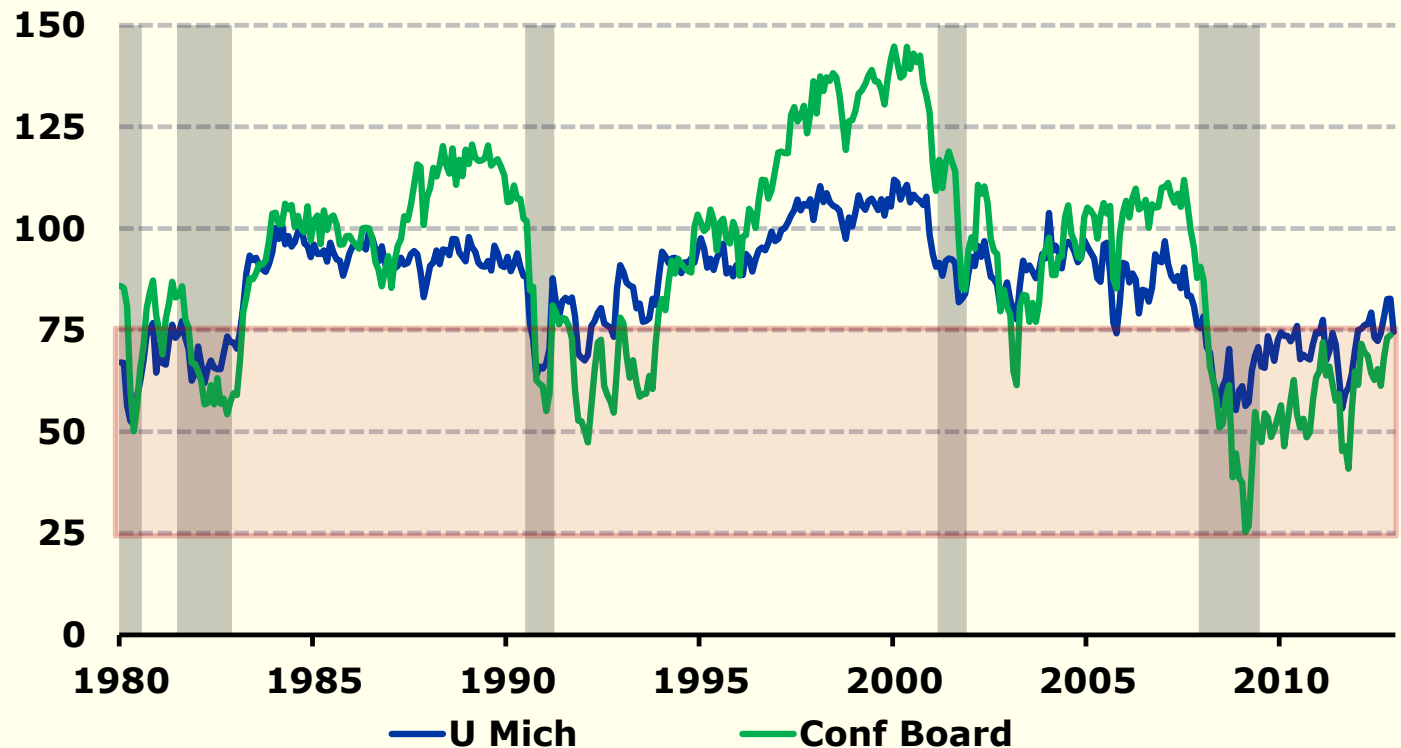


Consumer confidence appears to be finally improving

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA





Stock market has regained most of recession losses

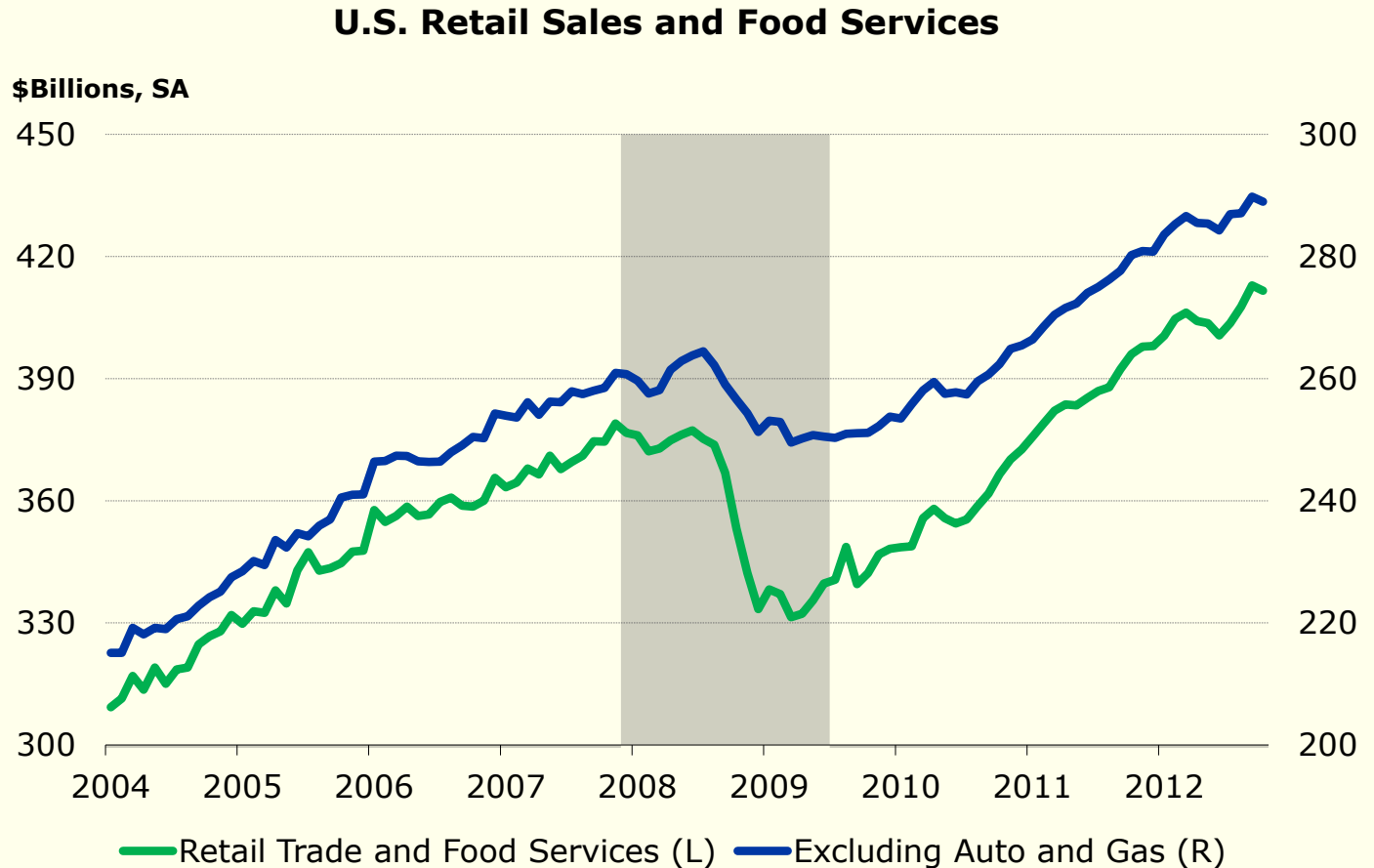




U.S. retail sales down slightly in October; Hurricane Sandy played a part

Preliminary U.S. retail trade and food services sales were up 5.2% year-over-year in September and 3.9% in October.

Excluding autos and gas, sales were up 4.4% year-over-year in September and 3.1% in October.



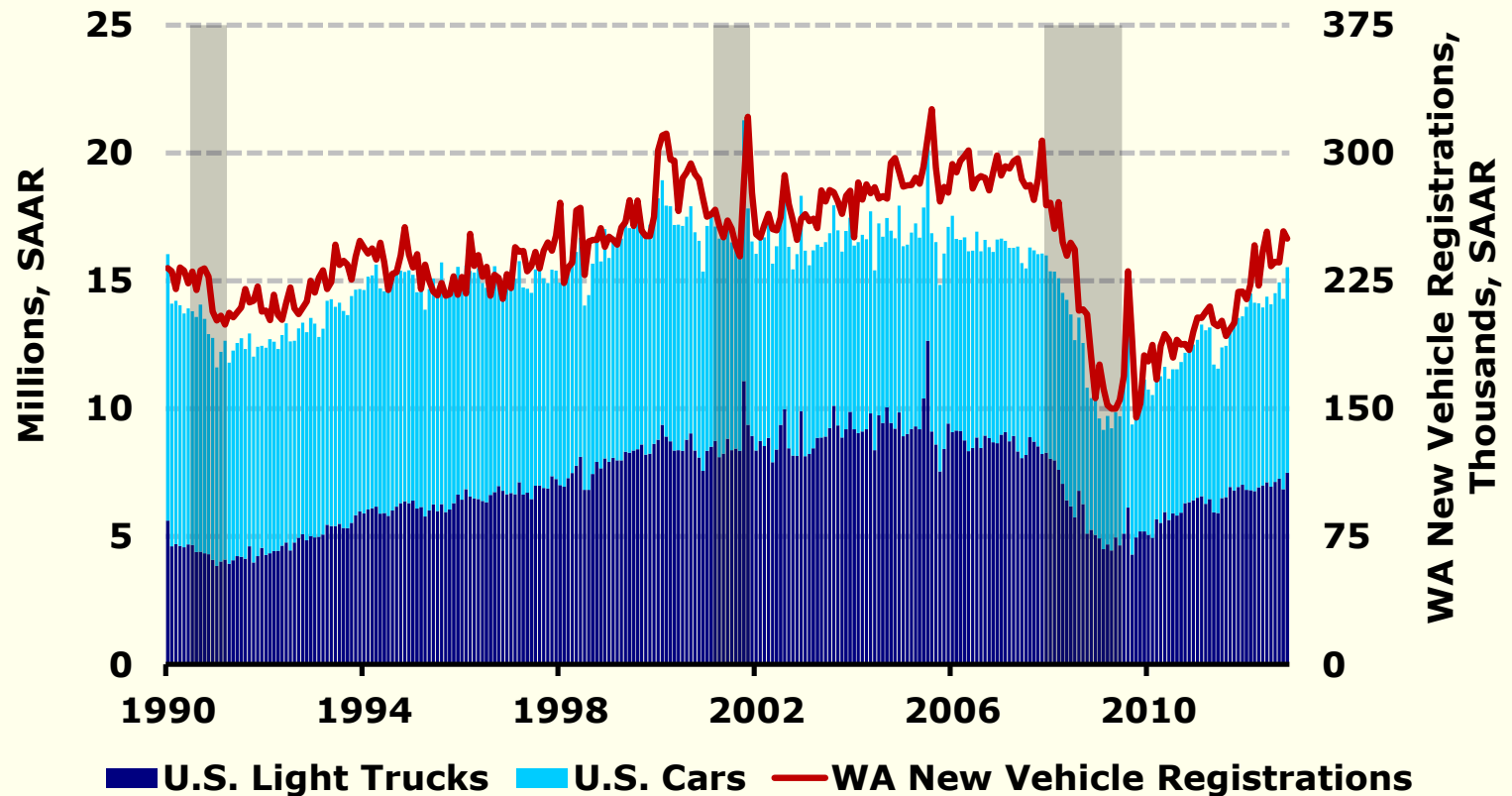
Source: U.S. Department of Commerce, Census Bureau; Data through October 2012 advance

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Vehicle sales continue their upward trend

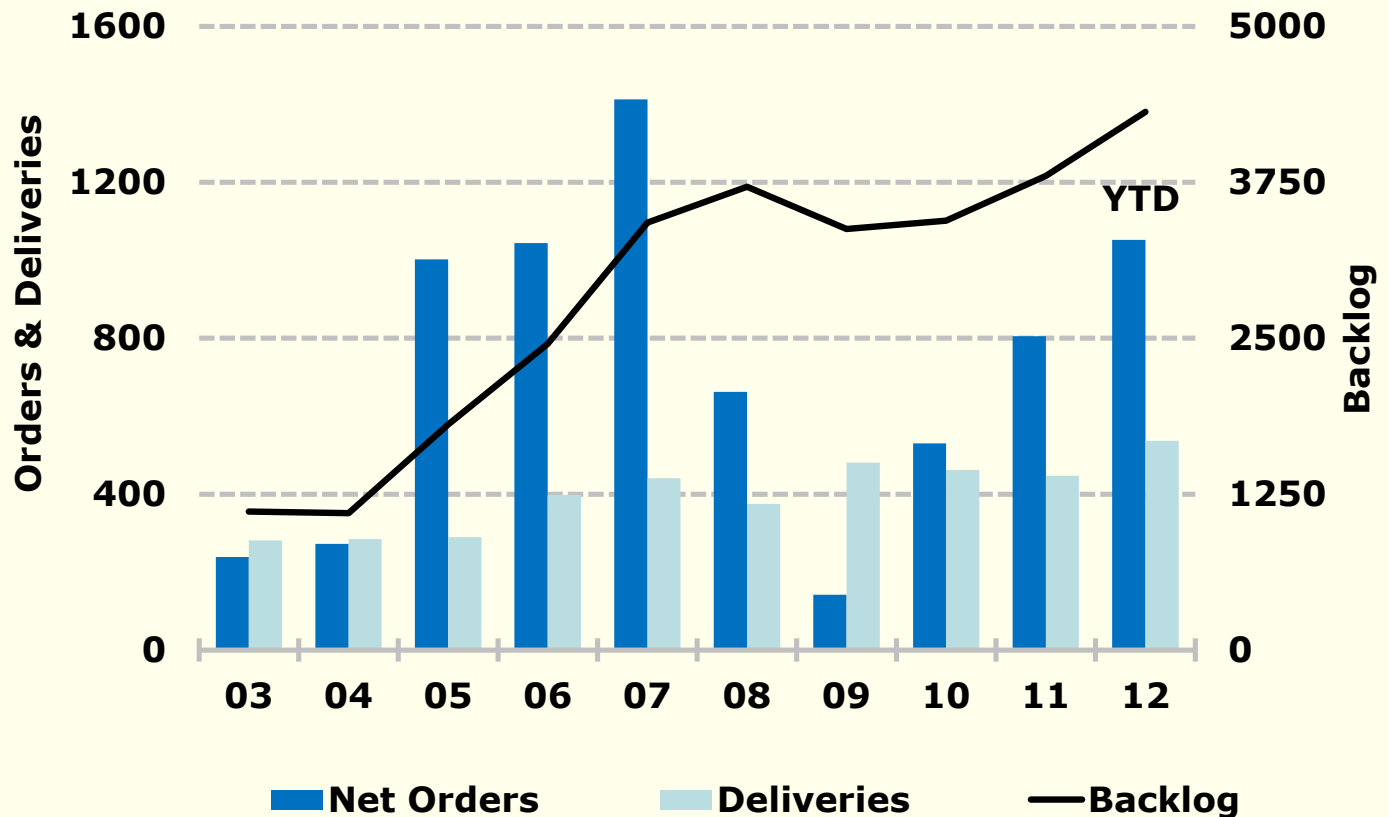
U.S. LMV sales in November were up 15% year-over-year.





Boeing has 7 years of commercial orders on its books

Excludes the military's new refueling tanker

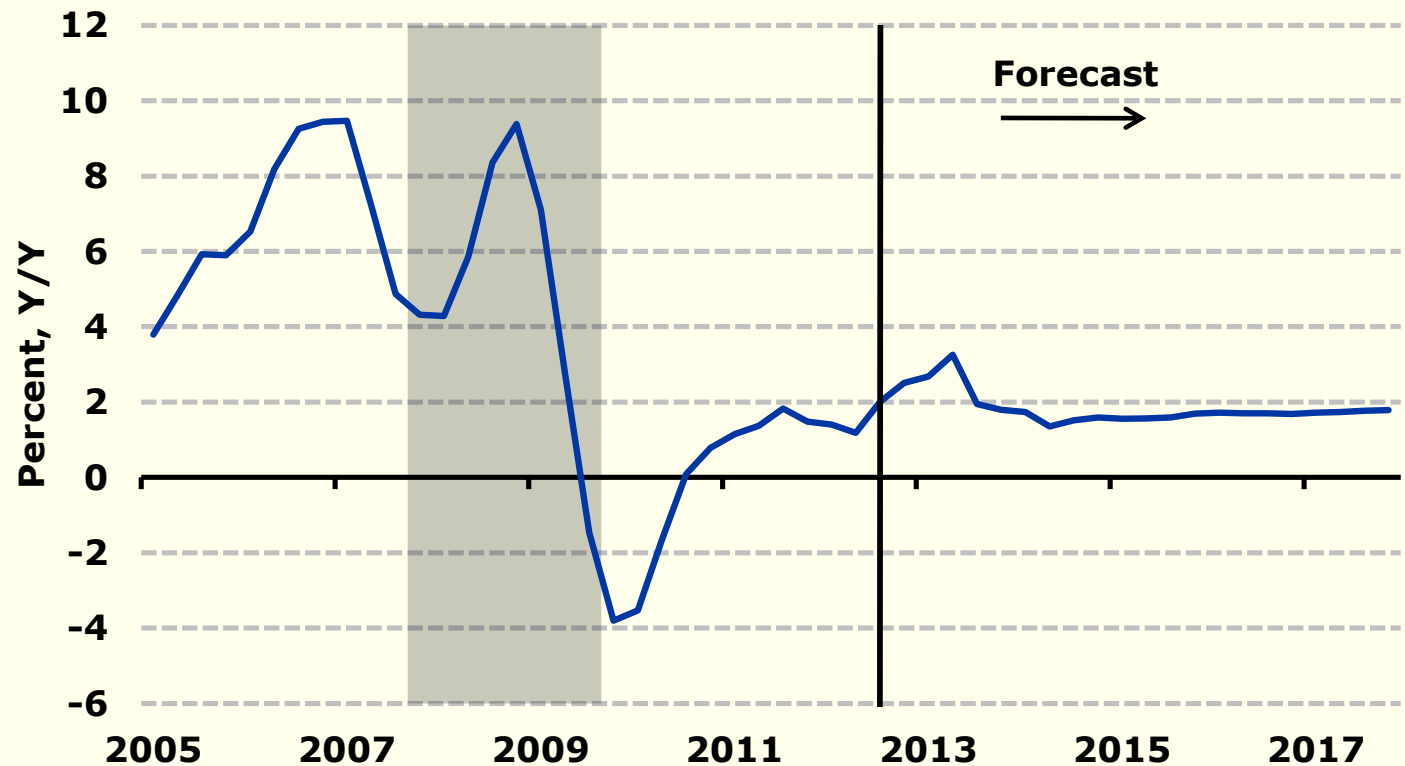


Source: Boeing, data through November 2012



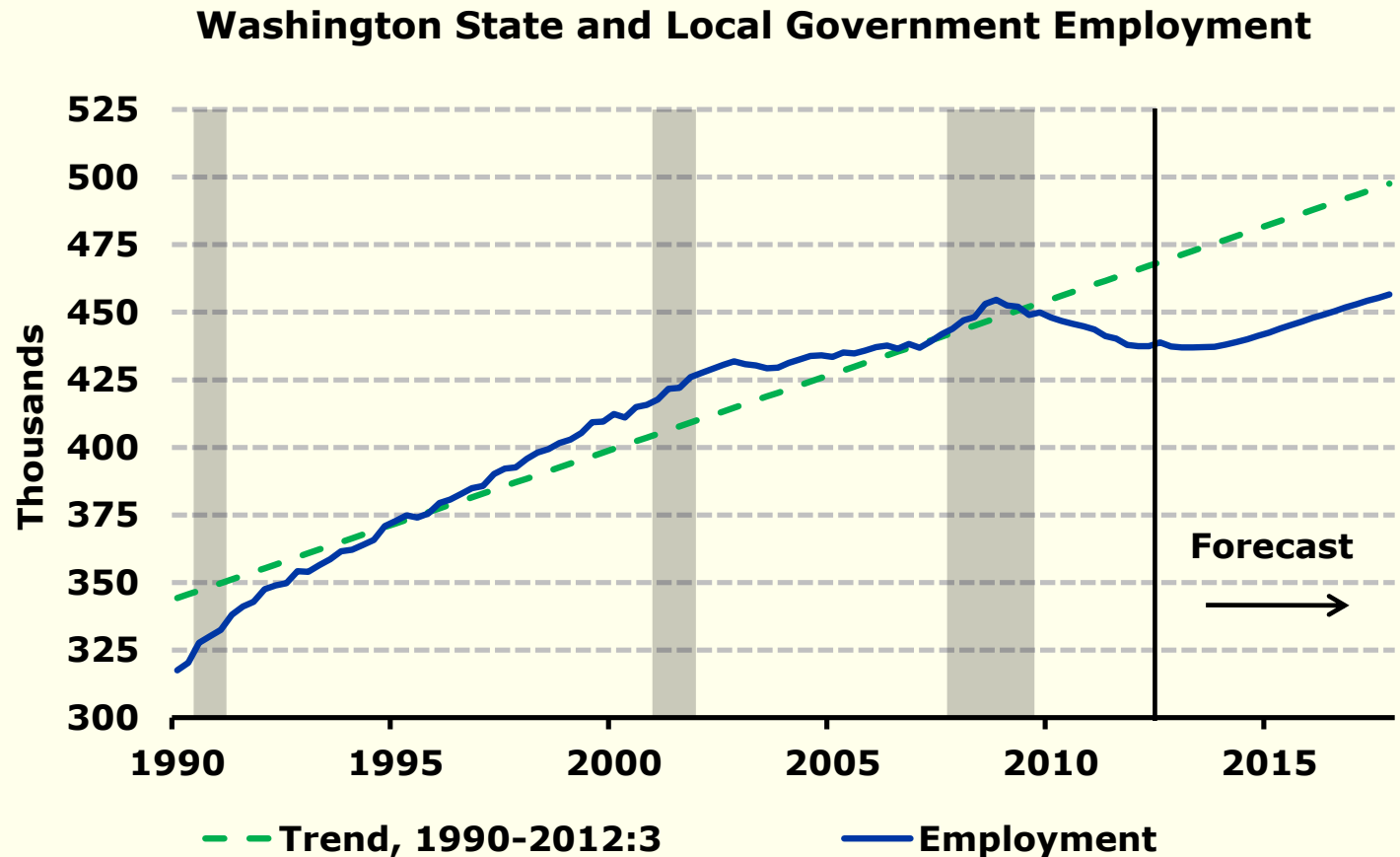
Software publishing employment is expected to slightly outperform overall employment

Washington Software Publishing Employment, SA





State and local government employment will remain weak



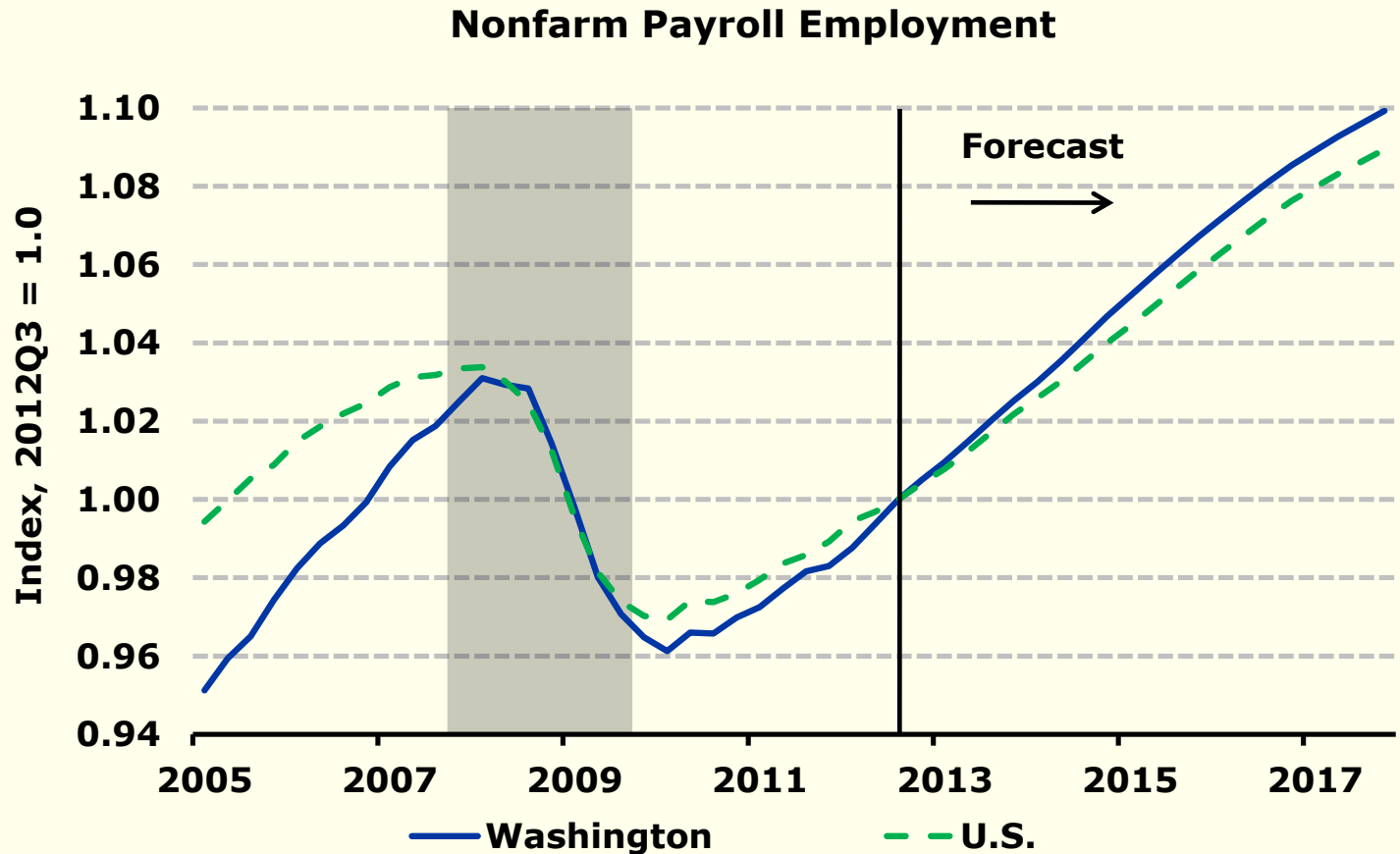


WA employment will recover slightly faster than the U.S.

Date of regaining peak:

WA:
2014Q2

U.S.:
2014Q3



Source: ERFC November 2012 forecast; historical data through 2012Q3

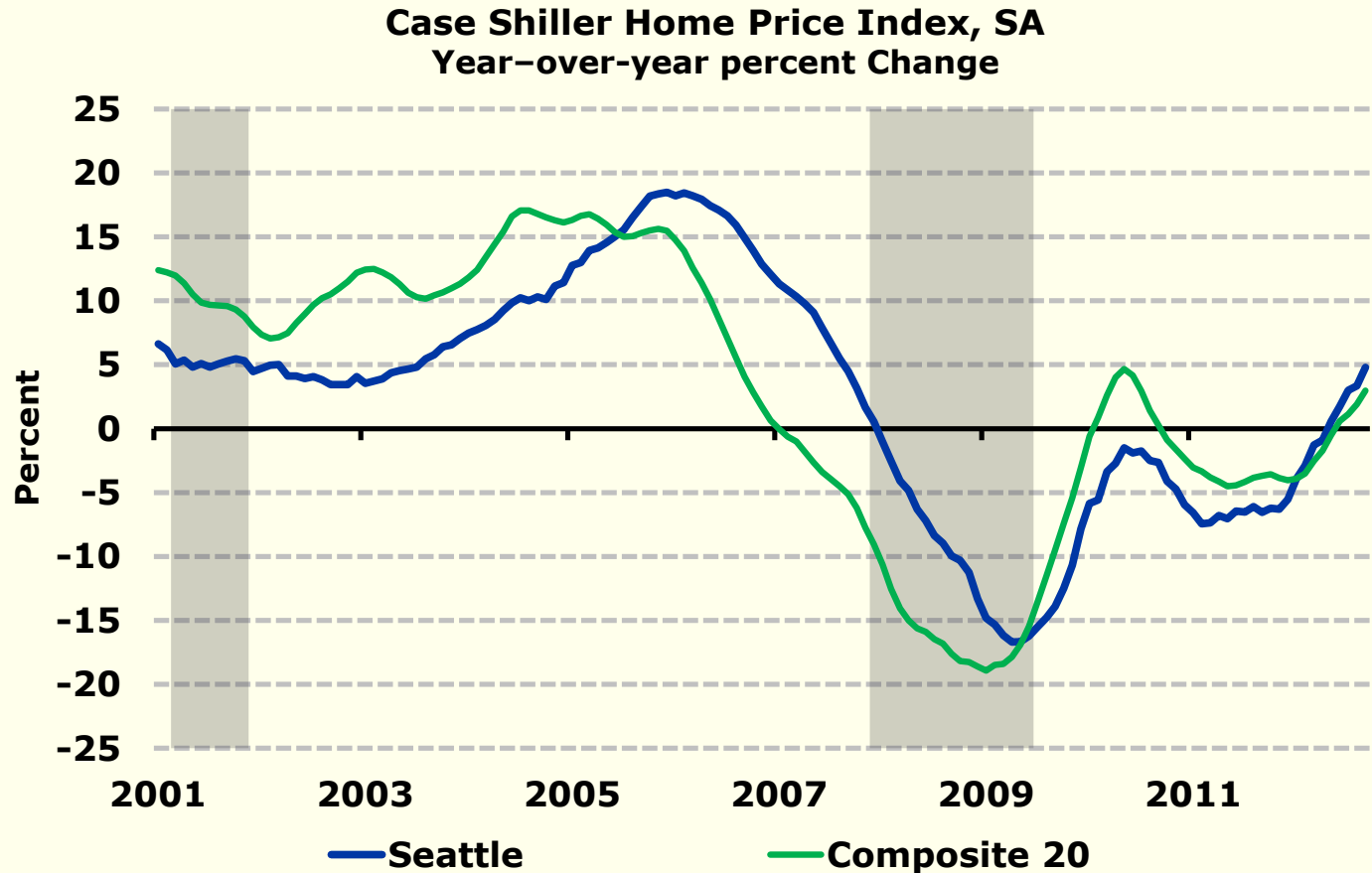


Single-family home prices are beginning to increase

Sep 2012

U.S. is up
3.0%

Seattle is
up 4.8%

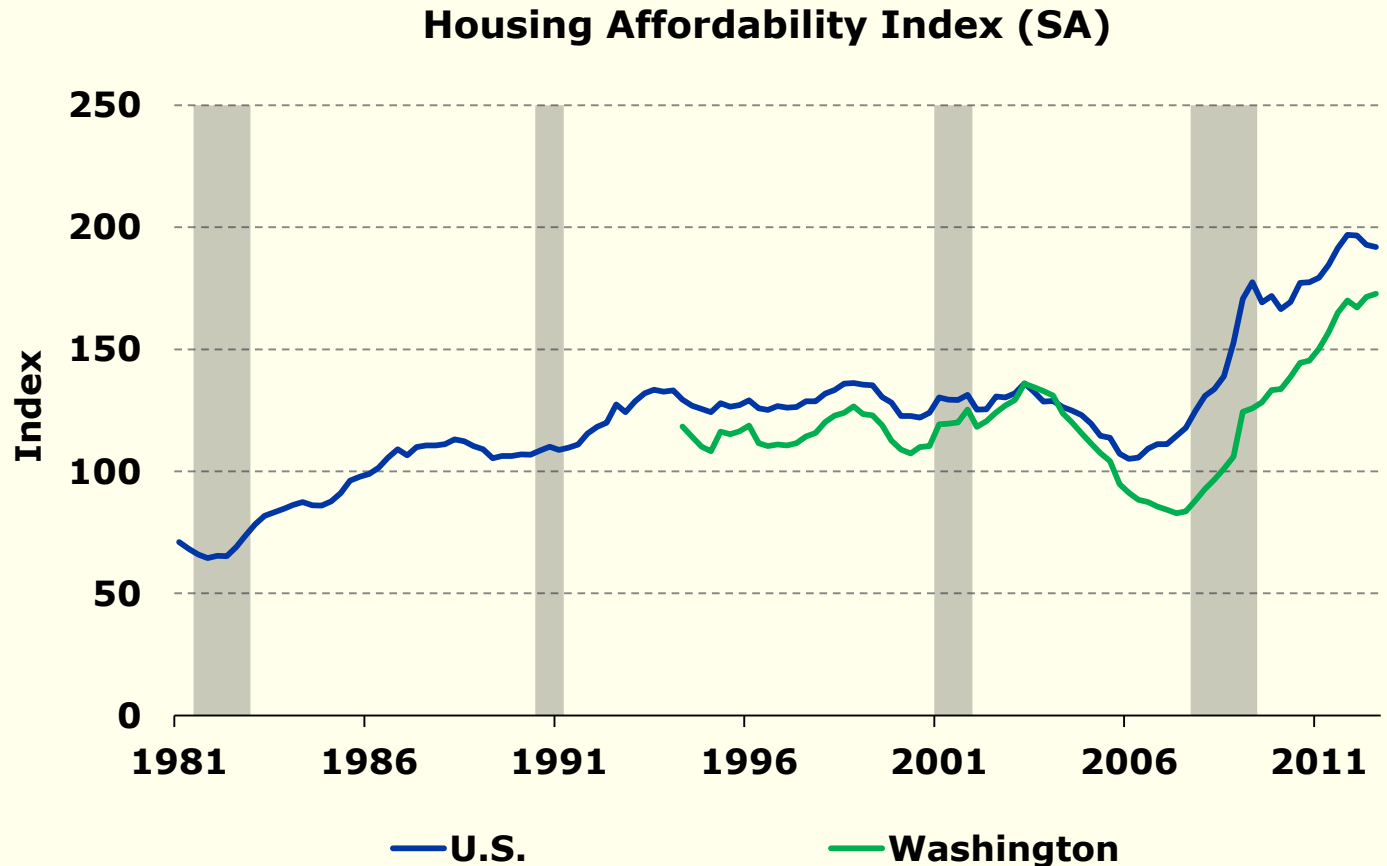


Source: S&P/Case-Shiller; data through September 2012



Home affordability remains in record territory

Affordability is 100 when the median income can just afford the median priced home. Above 100 means the median income can afford more than the median priced home



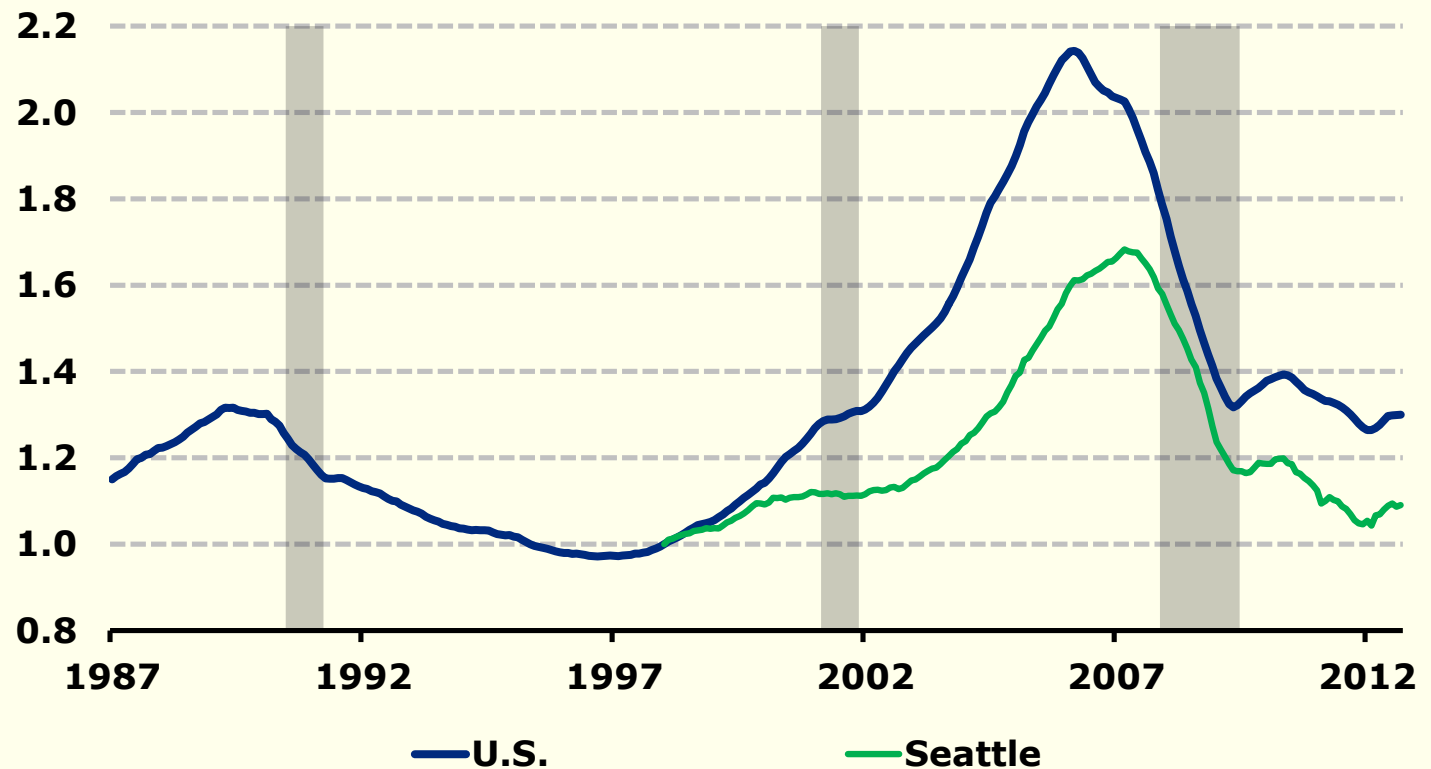
Source: National Association of Realtors, Global Insight, Washington Center for Real Estate Research; data through 2012 Q3

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The ratio of home prices to rent has come down since the bubble years

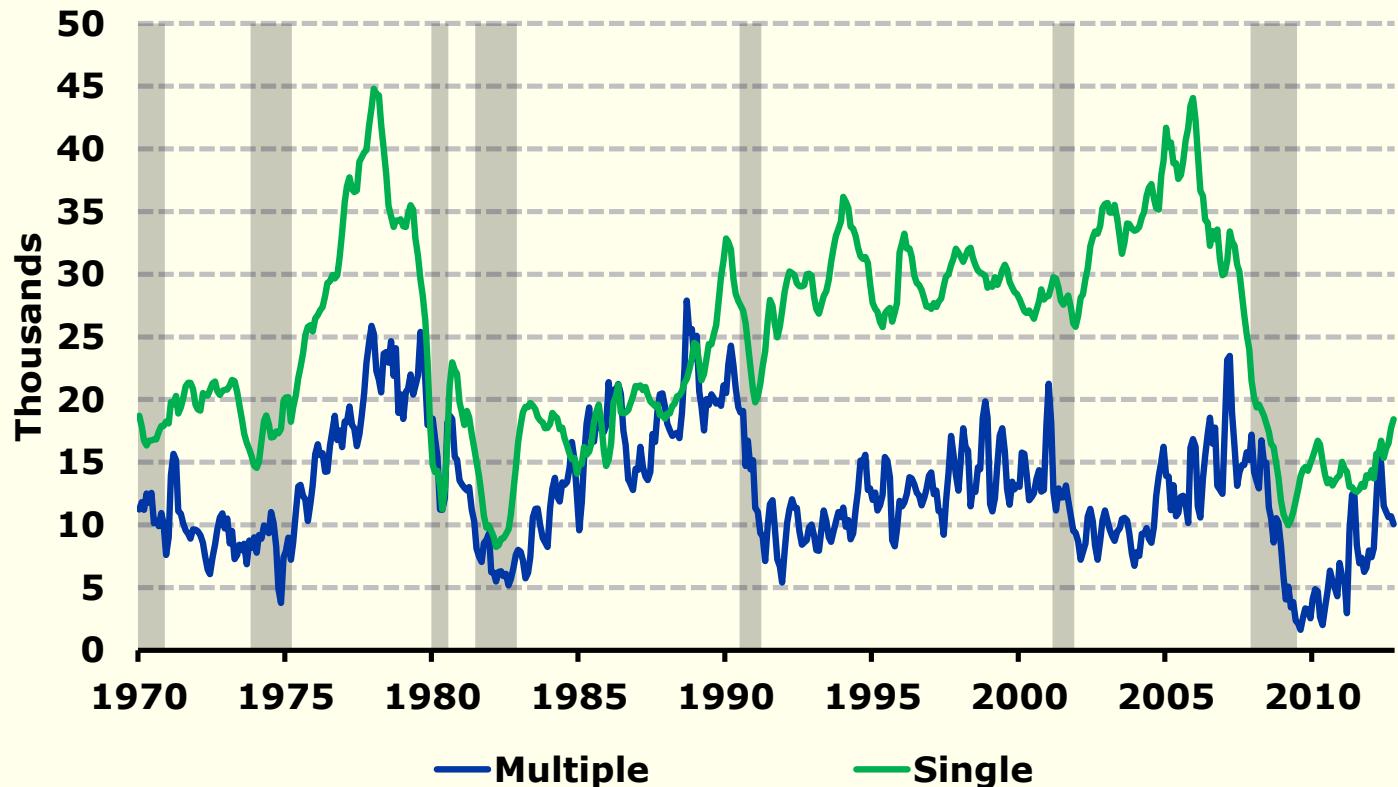
**Home Price to Rent Ratio
Index (Jan 1998 = 1.0)**





Washington building permits are increasing

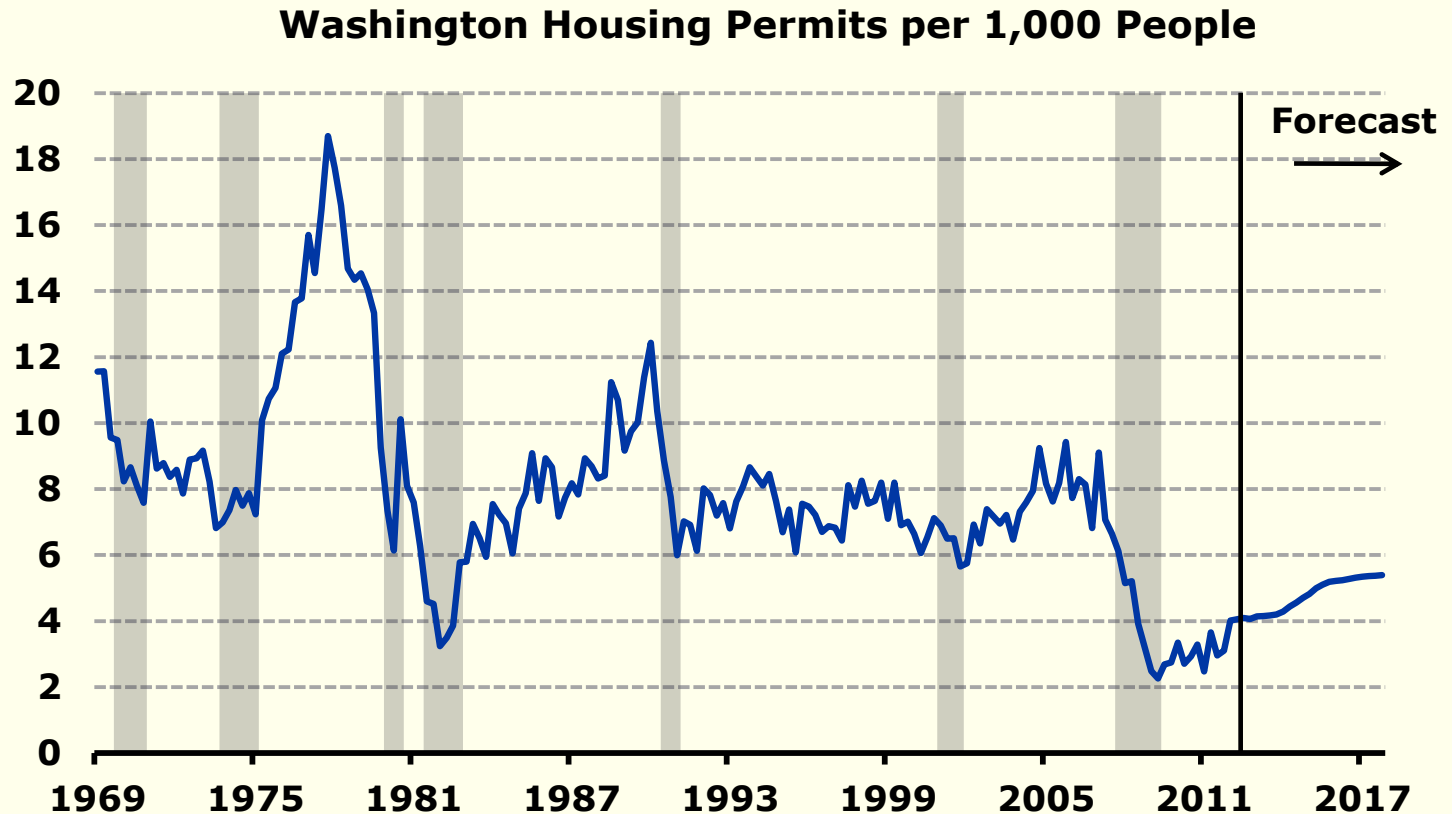
Washington Housing Units Authorized by Building Permits, 3MMA, SAAR



Source: U.S. Census Bureau; data through October 2012

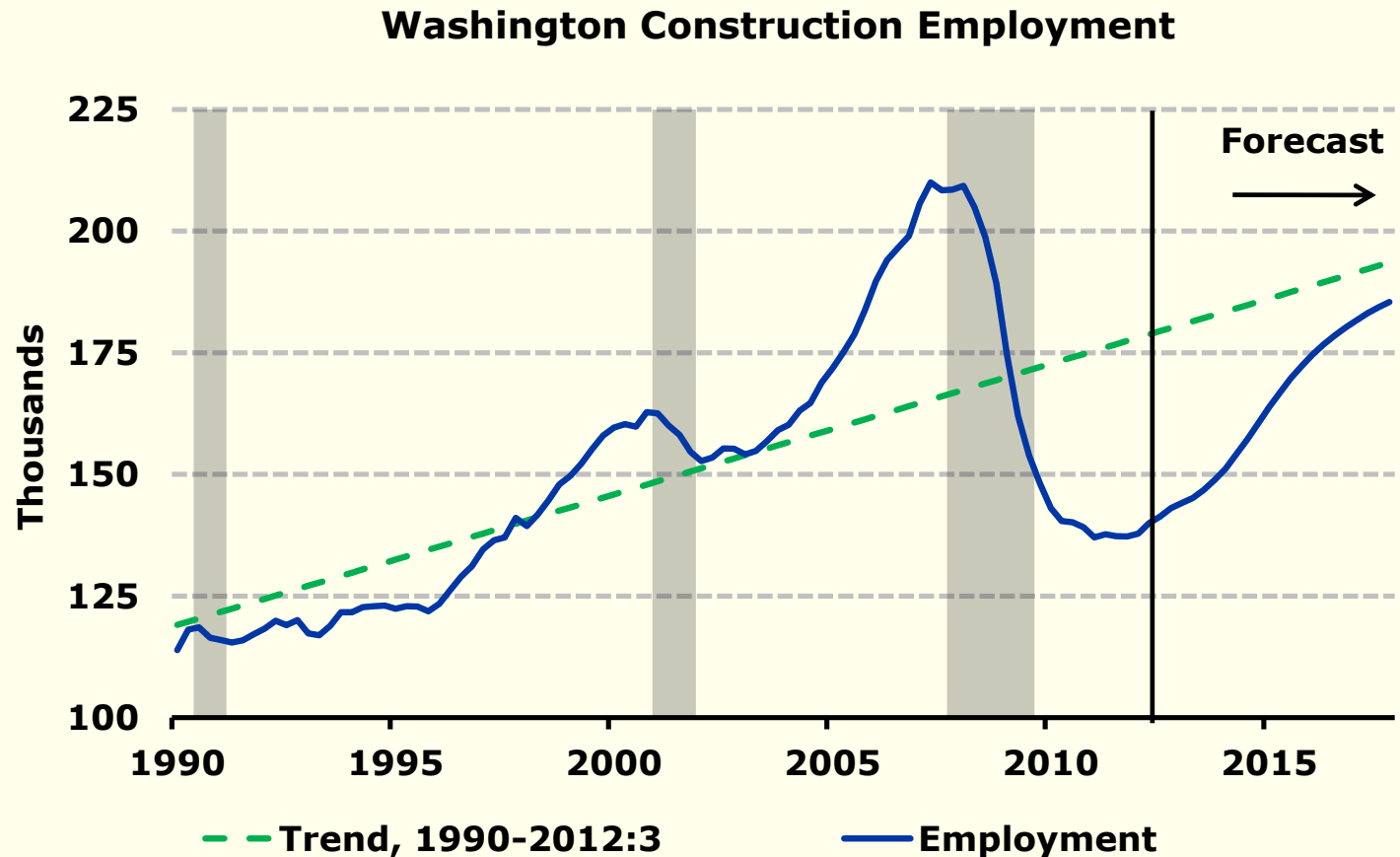


Housing permits relative to population will still be below historic levels in 2017





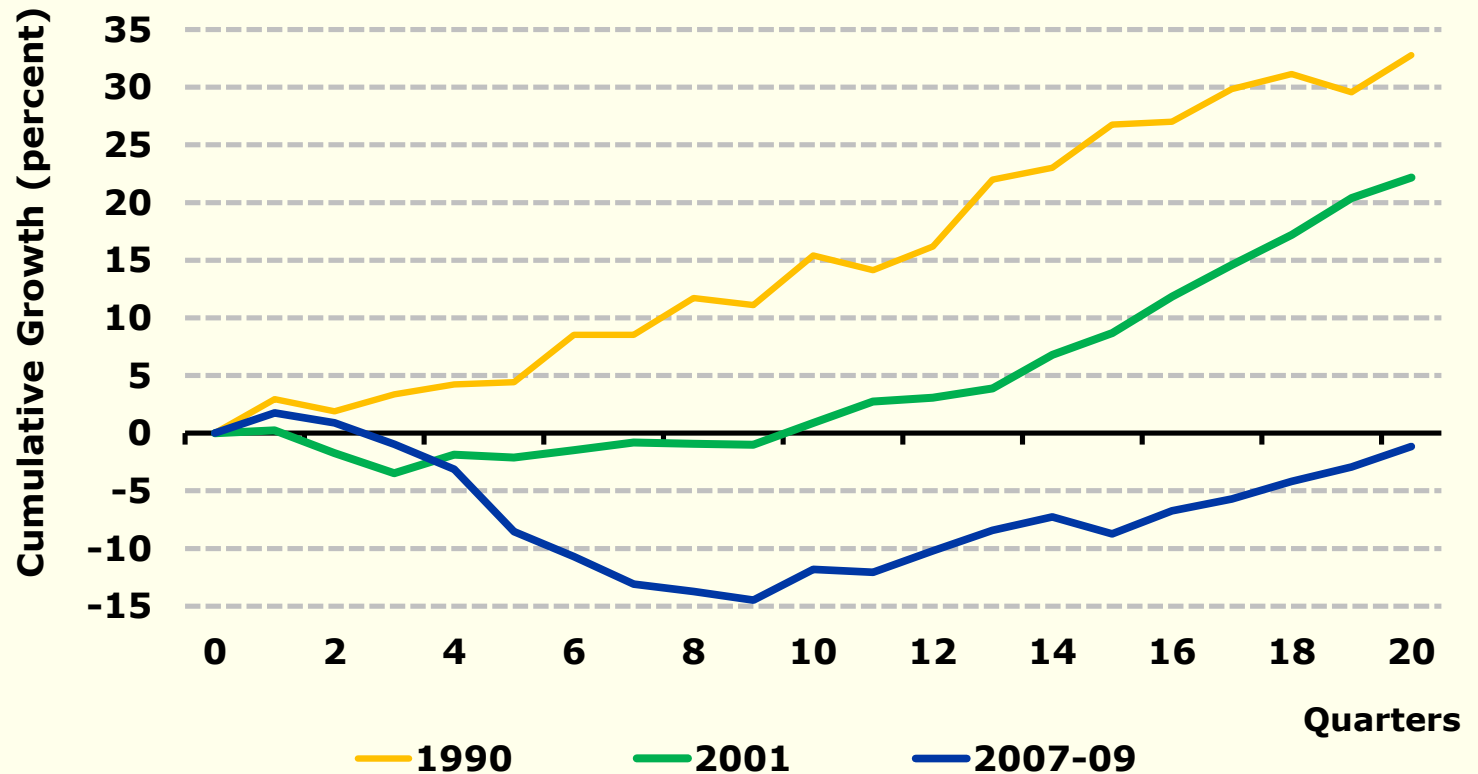
Washington construction employment will remain below trend throughout the forecast





Revenue collections have been weak compared to past recoveries

Revenue Act Collections after Business Cycle Peak

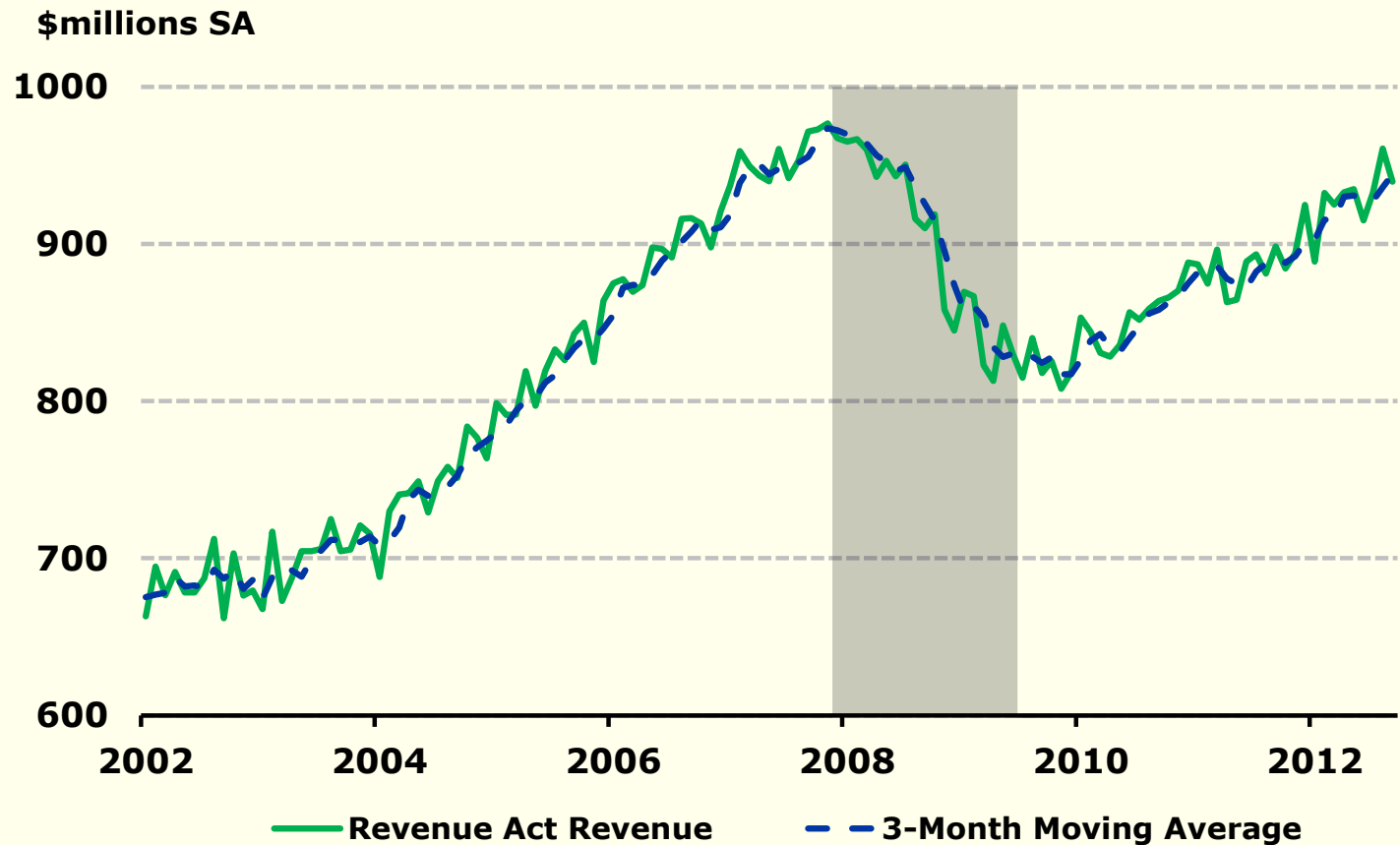




Revenue Act collections are still on an upward trend

Collections were up 2.3% year-over-year in the October 11 - November 10, 2012 collection period but were up 10.4% in the previous period

Collections through November 10 were only \$136,000 lower than forecasted.



* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated September 2012 activity

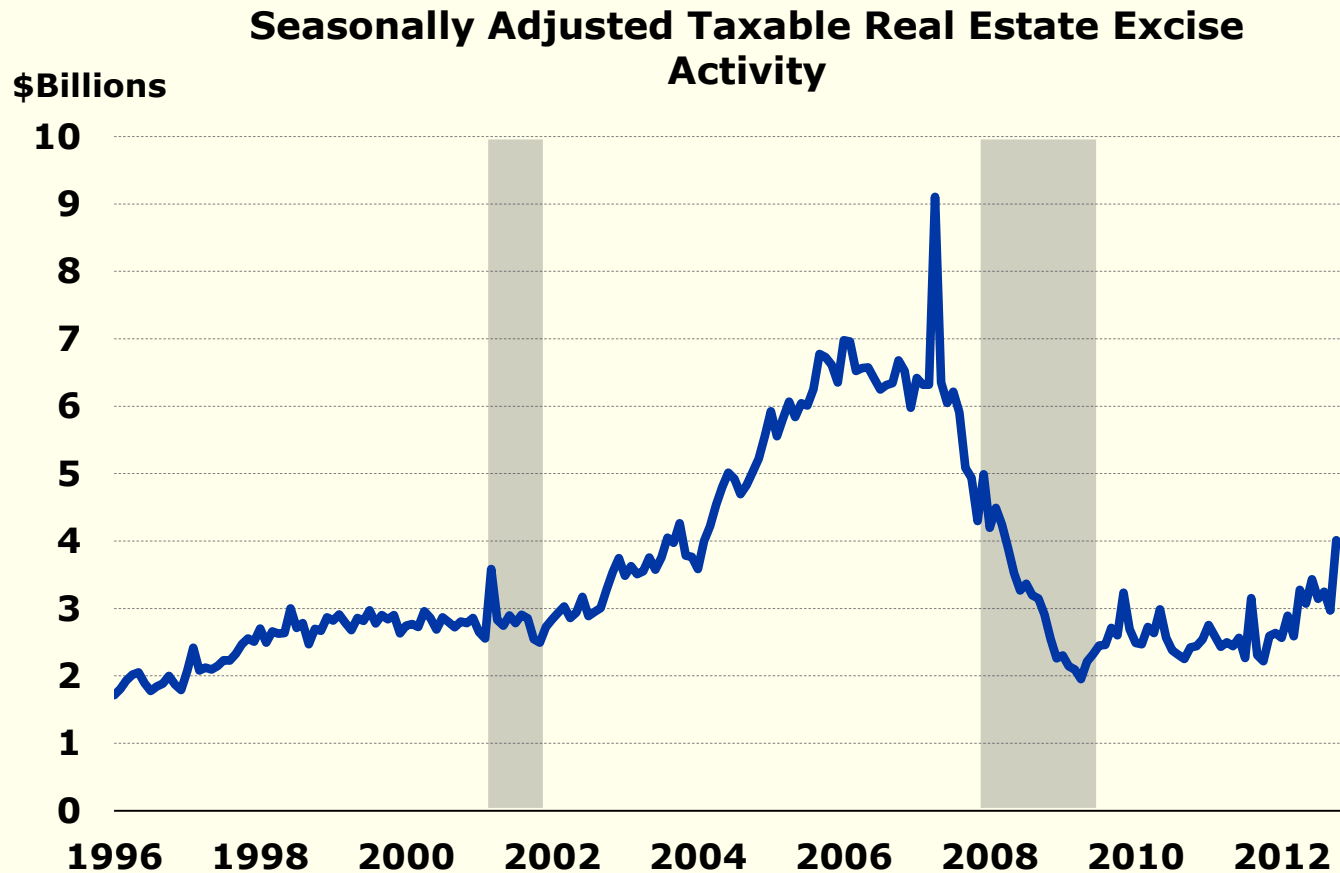
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October saw another spike in large commercial real estate sales

\$800 million in large commercial sales added about \$10 million to October REET

The pending \$1.2 billion sale of the Amazon.com campus added \$15 million to the forecast

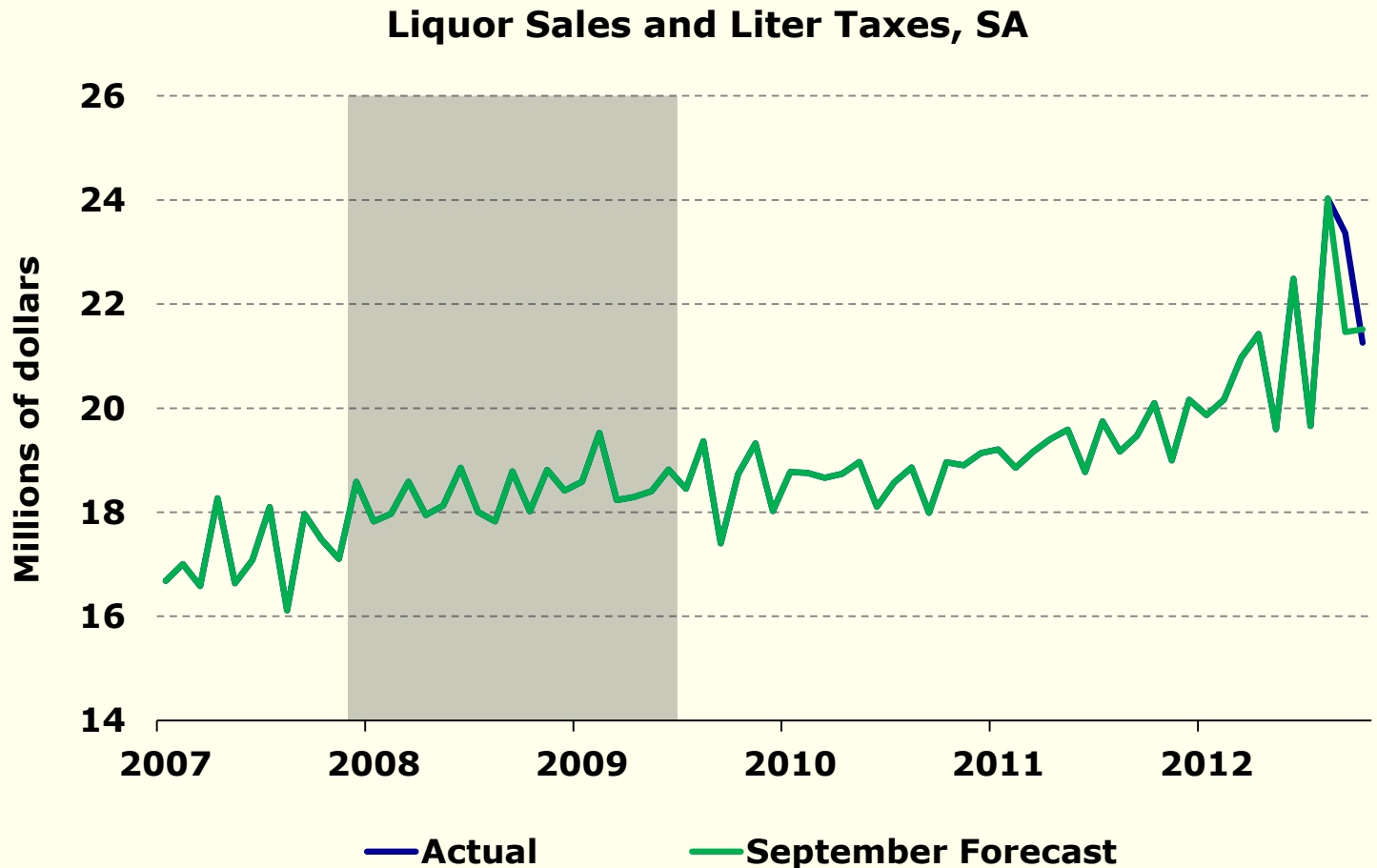


Source: ERFC; Monthly data through October 2012 preliminary



Revenue for liquor sales has been volatile recently

Revenue was \$2.2 million (5.1%) above the September forecast



Source: DOR, ERFC; data through October 2012



Forecast changes: General Fund State, 2011-2013 Biennium

**September
Forecast:**

**\$30,469
million**

USD millions	November Forecast			
	<u>Collection Experience</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$32	(\$3)	\$28,852	\$29
All other agencies	(\$1)	(\$20)	\$1,625	(\$21)
Total GF-S	\$31	(\$23)	\$30,477	\$8

* Detail may not add to total due to rounding



Forecast changes: General Fund State, 2013-2015 Biennium

**September
Forecast:**

**\$32,649
million**

**USD
millions**

November Forecast

	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	(\$113)	\$31,001	(\$113)
All other agencies	\$0	\$25	\$1,560	\$25
Total GF-S	\$0	(\$88)	\$32,561	(\$88)

* Detail may not add to total due to rounding



Budget Outlook as of Nov. 2012

Dollars in millions

	2011-13	2013-15	2015-17
Revenues	\$31,278	\$32,756	\$35,821
Expenditures	31,083	33,793	35,990
Ending Balance	+134	-904	-1,072

- Revenues = General Fund + “Near General Fund” + fund transfers
- Expenditures = Costs of current services in future biennia
 - Includes ACA impact but not Medicaid expansion cost
 - Does not include “McCleary” education funding
 - No policy changes
 - No COLAs for employees or vendors



Conclusion

- The forecast for the 2011-13 Biennium is \$8 million higher than in September
- The forecast for the 2013-15 Biennium is \$88 million lower than in September
- Revenues are expected to grow 8.0% between the 2009-11 and 2011-13 biennium and 6.8% between the 2011-13 and 2013-15 biennium
- As in September, we are forecasting slow economic and job growth for both the national and state economies
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks



Questions



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